THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or professional adviser.

If you have sold or transferred all your shares in Beijing Development (Hong Kong) Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities of Beijing Development (Hong Kong) Limited.

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

(Incorporated in Hong Kong with limited liability)
(Stock Code: 154)

VERY SUBSTANTIAL ACQUISITION AND ISSUE OF CONSIDERATION SHARES IN RELATION TO THE ACQUISITION OF ENTIRE SHAREHOLDING INTERESTS IN AND THE SHAREHOLDERS LOANS OF KCS CHANGDE AND KCS TAIAN AND NOTICE OF EGM

A letter from the Board is set out on pages 8 to 37 of this circular.

A notice convening an EGM of the Company to be held at 66th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Tuesday, 15 April 2014 at 11:00 a.m. is set out on pages EGM-1 and EGM-2 of this circular. If you are unable to attend the meeting in person, please complete and return the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's share registrar, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting should you so wish.

27 March 2014

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

"Acquisition"	the sale and purchase of the Sale Shares and the Shareholders Loans pursuant to the Sale and Purchase Agreement;
"associate(s)", "connected person(s)", "subsidiary(ies)"	each has the meaning ascribed to it by the Listing Rules;
"BDEP (Haidian)"	Beijing Development Environmental Protection (Haidian) Limited, a company incorporated in Hong Kong with limited liability, a wholly owned subsidiary of the Company;
"BEHL"	Beijing Enterprises Holdings Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the main board of the Stock Exchange (stock code: 392);
"BEHL Group"	BEHL and its subsidiaries;
"Board"	the board of Directors;
"Capital Investment"	RMB256,000,000 (equivalent to approximately HK$328,192,000), which is proposed to be injected as additional registered capital of Lvhaineng by way of cash pursuant to the terms of the Increase of Capital Contract upon completion of the Increase of Capital Contract;
"Cash Consideration"	the part of the Consideration in the sum of RMB86,790,000 (equivalent to approximately HK$111,230,000) to be satisfied in cash at Completion;
"Company"	Beijing Development (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the main board of the Stock Exchange (stock code: 154);
"Completion"	the completion of the sale and purchase of the Sale Shares and the Shareholders Loans in accordance with the terms of the Sale and Purchase Agreement;

"Conditions"	the conditions precedent to completion of the transactions contemplated under the Sale and Purchase Agreement, the major terms of which are set out in section headed "The Sale and Purchase Agreement — Conditions Precedent" in this circular;
"Consideration"	the consideration for sale and purchase of the Sale Shares and the assignment of the Shareholders Loans;
"Consideration Shares"	347,000,000 Shares to be allotted and issued at the Issue Price to the Vendor or such person as it may direct to satisfy part of the Consideration pursuant to the terms of the Sale and Purchase Agreement;
"Directors"	the directors of the Company;
"EGM"	extraordinary general meeting of the Company to be held at 66th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Tuesday, 15 April 2014 at 11:00 a.m. to consider and, if thought fit, to approve the Sale and Purchase Agreement and the transactions contemplated thereunder;
"Enlarged Group"	the Group immediately after Completion;
"Equity Premium"	RMB27,550,000 (equivalent to approximately HK$35,319,000), which is the maximum amount proposed to be injected by BDEP (Haidian) by way of cash as equity premium of Lvhaineng pursuant to the terms of the Increase of Capital Contract;
"Firm Bonds"	the convertible bonds due 2018 in the aggregate principal amount of HK$300,580,000 issued by the Company to the Subscriber, details of which are set out in the circular of the Company to the Shareholders dated 21 December 2012;
"Group"	the Company and its subsidiaries;

"Haidian Project"	北京市海澱區循環經濟產業園再生能源發電廠項目 (Beijing Haidian District Cyclic Economy Industrial Park Renewable Energy Power Generation Haidian Project*), a renewable energy power generation plant situated in Haidian District, Beijing Municipality of the PRC;
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong;
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC;
"Hunan Project"	has the meaning ascribed to it under the section headed "Information on the Target Group – The Projects" in this circular;
"Increase of Capital Contract"	the contract entered into between BDEP (Haidian) and the Original Shareholders on 28 June 2012 in relation to the proposed injection of the Capital Investment and the Equity Premium as well as advancement of the Loans to the holding company of the Haidian Project;
"Independent Third Party"	a person or persons that is or are independent of, and not connected with, any directors, chief executive or substantial shareholders (within the meaning under the Listing Rules) of the Company or any of its subsidiaries or any of their respective associate(s);
"Issue Price"	the issue price of the Consideration Shares in the amount of HK$1.60 per Share;
"KCS Changde"	KCS Changde Investments Company Limited (中馬常德投資有限公司), a company incorporated in Hong Kong with limited liability;
"KCS Changde Group"	KCS Changde and its subsidiary;
"KCS Taian"	KCS Taian Investments Company Limited (中馬泰安投資有限公司), a company incorporated in Hong Kong with limited liability;
"KCS Taian Group"	KCS Taian and its subsidiary;

"kWh"	kilowatt-hour;
"Last Trading Date"	28 January 2014, being the last trading date for the Shares on the Stock Exchange prior to the date of the Previous Announcement;
"Latest Practicable Date"	26 March 2014, being the latest practicable date prior to the printing of this circular for ascertaining certain information set out in this circular;
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange;
"Loans"	RMB644,000,000 (equivalent to approximately HK$825,608,000), which is the total aggregate amount of all unsecured loans proposed to be advanced by BDEP (Haidian) to Lvhaineng pursuant to the terms of the Increase of Capital Contract;
"Lvhaineng"	北京綠海能環保有限責任公司 (Beijing Lvhaineng Environmental Protection Co., Ltd.*), a company established under the laws of the PRC and which is wholly-owned by the Original Shareholders as at the Latest Practicable Date;
"MW"	megawatts;
"Original Shareholder(s)"	collectively: (i) 北京市海澱區國有資本經營管理中心 (The Beijing Haidian District State Owned Capital Management Centre*), is a state-owned enterprise, principally engaged in the financing of the construction of and investment in infrastructures in Haidian District of Beijing Municipality, and which holds 60% equity interests in Lvhaineng as at the Latest Practicable Date; (ii) 北京中海投資管理公司 (Beijing Zhonghai Investment Management Co.*), is a state-owned enterprise, principally engaged in the promotion and development of high-tech industry, and which holds 20%

	equity interests in Lvhaineng as at the Latest Practicable Date; (iii) 北京海融達投資建設有限公司 (Beijing Hairongda Investment Construction Co., Ltd.*), is a state-owned enterprise, principally engaged in the development and construction of infrastructure and road network, and which holds 12% equity interests in Lvhaineng as at the Latest Practicable Date; and (iv) 北京市海澱區國有資產投資經營有限公司 (State-Owned Properties Investment & Management Co. of Haidian District, Beijing*), is a state-owned enterprise, principally engaged in the investment in high-tech industry and real estates, and which holds 8% equity interests in Lvhaineng as at the Latest Practicable Date;
"PRC"	the People's Republic of China (excluding, for the purpose of this circular, Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan);
"Previous Announcement"	the announcement of the Company dated 29 January 2014 in relation to, among other things, the entering into the framework agreement between the Company and the Vendor in respect of the Acquisition;
"Projects"	means collectively, the Shandong Project and the Hunan Project;
"RMB"	Renminbi, the lawful currency of the PRC;
"Sale and Purchase Agreement"	the sale and purchase agreement dated 24 February 2004 entered into among the Company and the Vendor relating to the Acquisition;

"Sale Shares"	all of the issued shares of each of KCS Taian and KCS Changde;
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
"Shandong Project"	has the meaning ascribed to it under the section headed "Information on the Target Group – The Projects" in this circular;
"Shareholders"	holders of the Shares;
"Shareholders Loans"	the loans owing by each of the Target Group to the Vendor as at Completion, the outstanding amount of which was US$71,531,751.70 (equivalent to approximately HK$555,227,000) as at the date of the Sale and Purchase Agreement;
"Share(s)"	ordinary share(s) in the share capital of the Company;
"Standby Bonds"	the standby convertible bonds due 2018 in the aggregate principal amount of HK$3,000,150,000 proposed to be issued by the Company to the Subscriber, details of which are set out in the circular of the Company to the Shareholders dated 21 December 2012;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"Subscriber"	Idata Finance Trading Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of BEHL;
"Takeovers Code"	the Codes on Takeovers and Mergers issued by the Securities and Futures Commission in Hong Kong;
"Target Companies"	collectively KCS Changde and KCS Taian;
"Target Group"	the Target Companies and its subsidiaries;
"US$" or "US dollar"	United States dollars, the lawful currency of the United States of America;

"Vendor"	KCS Green Energy International (Group) Investments Company Limited, a company incorporated in Hong Kong with limited liability and the holder of Sale Shares and the Shareholders Loans;
"%"	percentage.

For the purpose of this circular and for illustrative purpose only, RMB is converted into HK$ at the rate of RMB1:HK$1.2816 and US$ is converted into HK$ at the rate of US$1:HK$7.762. No representation is made that any amounts in RMB has been or could be converted at the above rates or at any other rates.

* *for identification purposes only*

北京發展(香港)有限公司

BEIJING DEVELOPMENT (HONG KONG) LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 154)

Executive Directors:
Mr. E Meng *(Chairman)*
Mr. Zhang Honghai
Mr. Ke Jian *(Vice Chairman)*
Mr. Wang Yong
Ms. Sha Ning
Ms. Qin Xuemin
Mr. Ng Kong Fat, Brian

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

Registered Office:
66th Floor
Central Plaza
18 Harbour Road
Wanchai
Hong Kong

27 March 2014

To the Shareholders,

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION
AND
ISSUE OF CONSIDERATION SHARES
IN RELATION TO
THE ACQUISITION OF ENTIRE SHAREHOLDING INTERESTS IN AND
THE SHAREHOLDERS LOANS OF
KCS CHANGDE AND KCS TAIAN
AND
NOTICE OF EGM

INTRODUCTION

Reference is made to the announcement of the Company dated 29 January 2014 and 24 February 2014 in relation to the proposed acquisition of interests in the Target Companies and related shareholder's loans. Following the signing of a framework agreement with the Vendor on 29 January 2014, the Company entered into a conditional and definitive agreement, i.e. the Sale and Purchase Agreement, on 24 February 2014 with the Vendor, pursuant to which the Company conditionally agreed to acquire and the Vendor conditionally agreed to sell the Sale Shares and the Shareholders Loans at an aggregate consideration of RMB520,000,000 (equivalent to approximately HK$666,430,000). The Consideration will be satisfied: (a) as to RMB86,790,000 (equivalent to approximately HK$111,230,000) by cash, and (b) as to RMB433,210,000 (equivalent to approximately HK$555,200,000) by the issue of Consideration Shares at an Issue Price of HK$1.60 per Share.

This circular provides you with, among other things, (i) further information on the Acquisition; (ii) financial information of the Group; (iii) accountants' reports of each of the Target Companies; (iv) management discussion and analysis on the Group and on the Target Group; (v) unaudited pro forma financial information of the Enlarged Group; (vi) the business valuation report of KCS Changde; and (vii) a notice of the EGM.

THE SALE AND PURCHASE AGREEMENT

Date

24 February 2014

Parties

(1) the Company (as purchaser)

(2) the Vendor (as vendor)

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, the Vendor and its ultimate beneficial owners are third parties independent of the Company and its connected persons.

Assets to be acquired

The Sale Shares and Shareholders Loans.

The Target Companies are investment holding companies, and as at the date of the Sale and Purchase Agreement, KCS Taian and KCS Changde wholly own Tai An China Sciences Environment Power Company Limited (泰安中科環保電力有限公司) and Changde Zhonglian Environmental Electricity Co. Ltd (常德中聯環保電力有限公司) respectively, both of which are limited companies incorporated in the PRC and are engaged in waste-to-energy business in Shandong Province and Hunan Province of the PRC respectively.

Consideration and terms of settlement

The Consideration payable by the Company to the Vendor shall be RMB520,000,000 (equivalent to approximately HK$666,430,000), which has been arrived at after arm's length negotiations between the Company and the Vendor after taking into account, among other things, the net asset value of the Target Group, the amount of the shareholders' loans provided by the Vendor to the Target Group and the future prospects of the Target Group.

In particular, the Projects are both at the early stage of commercial operations (please refer to the section headed "Information on the Target Group – The Projects" in this circular below for details), and the Company believes that the Projects have substantial future prospects and growth potential. Therefore, the Company considers that it is fair and reasonable to pay the Consideration with a premium to the aggregate net asset value of the Target Group and the amount of the shareholders' loans provided to the Target Group.

The Consideration shall be satisfied at Completion in the following manner:

(a) the Company shall pay to the Vendor RMB86,790,000 (equivalent to approximately HK$111,230,000), or the equivalent amount in other currency as elected by the Vendor, in cash (i.e. the Cash Consideration); and

(b) the Company shall satisfy the remaining Consideration in the sum of RMB433,210,000 (equivalent to approximately HK$555,200,000) by the allotment and issue of the Consideration Shares credited as fully paid to the Vendor (or a person nominated by the Vendor).

Conditions precedent

Completion is conditional upon:

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

(b) the obtaining of the approval from the shareholders of the Vendor for the Sale and Purchase Agreement and the transactions contemplated thereunder, if required;

(c) the listing committee of the Stock Exchange granting the listing of, and permission to deal in, the Consideration Shares; and

(d) the Vendor holding less than 30% equity interest in the Company upon the allotment and issue of the Consideration Shares pursuant to the Sale and Purchase Agreement and there is no obligation for the Vendor or parties acting in concert with it to make a mandatory general offer to the Shareholders pursuant to the Takeovers Code.

If the Conditions are not fulfilled on or before the date being 60 days from the date of the Sale and Purchase Agreement (or such other date as the parties may agree), either party may give notice to the other party to terminate the Sale and Purchase Agreement. As at the Latest Practicable Date, none of the Conditions have been fulfilled.

Completion

Completion will take place on the fifth business days after the last of the Conditions has been fulfilled (or such other date as the Vendor and the Company may agree in writing), and is expected to take place in April this year.

At Completion, the legal title to the Sale Shares will be transferred, and the Shareholders Loans will be assigned, to the Company. As a result, each of the Target Companies will become a wholly-owned subsidiary of the Company after Completion.

Management Rights Pending Completion

Upon the signing of the Sale and Purchase Agreement and pending Completion, the Company shall be entitled to appoint designated personnel to the Target Group to participate in the daily operations and management of the members of the Target Group so as to ensure a smooth transition of the Target Group from the Vendor to the Company pending Completion.

After the signing of the Sale and Purchase Agreement, Mr. Ke Jian, the vice chairman of the Board and an executive Director, has been appointed as the designated personnel and he has led a group of technical staff to participate in the daily operations and management of the Target Group.

Other Undertakings

The Vendor covenants with the Company that it and/or parties acting in concert with it will not after Completion, acquire or otherwise deal in any securities of the Company to the effect that the Vendor or any parties acting in concert with it will be required to make a mandatory general offer for the Shares under the Takeovers Code.

The Vendor and the Company also undertake that they will procure the repayment of certain loans or trade or other payables by the Target Group to the Vendor and/or its direct or indirect holding company(ies) and/or such holding company(ies)'s direct and indirect subsidiaries (other than the Shareholders Loans) on or before Completion.

CONSIDERATION SHARES

The total number of Consideration Shares represents:

(1) approximately 40.59% of all the issued shares of the Company as at the Latest Practicable Date; and

(2) approximately 28.87% of all the issued shares of the Company as enlarged by the issue of Consideration Shares.

Application will be made to the listing committee of the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares. Details of the impact of the Consideration Shares on the shareholding structure of the Company are set out in the section headed "Funding arrangement — Impact on the shareholding structure of the Company" in this circular below.

ISSUE PRICE

The Issue Price represents:

(1) a discount of approximately 36.25% to the closing price of HK$2.51 per Share as quoted on the Stock Exchange on the Last Trading Date;

(2) a discount of approximately 28.89% to the average closing price of HK$2.25 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Date;

(3) a discount of approximately 52.80% to the closing price of HK$3.43 per Share as quoted on the Stock Exchange on 24 February 2014, being the date of the Sale and Purchase Agreement;

(4) a discount of approximately 27.93% to the average closing price of HK$2.22 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Date; and

(5) a premium of approximately 48.15% over the unaudited consolidated net asset per Share of approximately HK$1.08 per Share as at 30 June 2013, being the date to which the latest published consolidated statements of the Company were made up to.

The Issue Price was arrived at on arm's length negotiations between the Company and the Vendor, taking into consideration the following factors:

(a) As set out in the section headed "Reasons and benefits for entering into the Sale and Purchase Agreement" in this circular below, the Company (through its subsidiaries) is principally engaged in the provision of information technology ("**IT**") related services. The Company considers that the current market price of the Shares is at a relatively high level as it has reflected: (i) the potential growth into the waste incineration-power generation business for the Company, and (ii) the huge amount of financial support provided by BEHL (including the subscription of the Shares and the Firm Bonds, and the proposed subscription of the Standby Bonds, details of which are set out in the Company's circular dated 21 December 2012) to the Company's potential waste incineration-power generation business. Although the Company plans to move into the waste incineration-power generation business (for instance, the proposed waste incineration-power generation projects as disclosed in the circular of the Company dated 21 December 2012), such plans are yet to materialise as at the Latest Practicable Date. In particular, the conditions precedent to the formation of joint venture for a waste incineration-power generation plant in Haidian district, Beijing (i.e. the Haidian Proejct) as disclosed in the announcement of the Company dated 28 June 2012 have not yet been fulfilled, thus such proposed transaction may or may not be completed. Accordingly, the Company is of the view that the valuation of the Company at this stage should not take into account the potential growth in the Company's business resulting from the future prospects of the waste incineration-power generation business. In view of the foregoing, the Company considers that the Issue Price should be determined based on the existing business of the Company and with reference to the valuation of other similar IT service providers instead of those companies that are engaged in waste incineration-power generation business.

(b) The Issue Price of HK$1.60 is much higher than the net asset per Share (representing a premium of approximately 48.15% over the unaudited consolidated net asset per Share as at 30 June 2013 as set out above), and is close to the share value of other similar IT service providers.

(c) The Company understands that the Vendor shares similar views as above, and therefore has agreed to accept part of the Consideration in the form of Consideration Shares to be issued at the Issue Price, which is higher than the net asset per Share.

In light of the above, the Directors consider that the discount in the Issue Price with the market price of the Shares is fair and reasonable.

INFORMATION OF THE VENDOR

The Vendor is incorporated in Hong Kong and is principally engaged in investment holding. The Vendor is 80% indirectly owned by Khazanah Nasional Berhad, the strategic investment fund of the Government of Malaysia and 20% beneficially owned by several individuals and companies. To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, such individuals and companies are third parties independent of the Company and its connected persons. To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, the Vendor does not have any connection or relationship with the vendors in the very substantial acquisition disclosed in the announcement of the Company dated 28 June 2012.

INFORMATION ON THE TARGET GROUP

The Target Companies

KCS Taian and KCS Changde are incorporated in Hong Kong on 24 April 2007 and 6 June 2008 respectively as investment holding companies. The principal activity of the subsidiaries of the Target Companies is waste-to-energy business in the PRC. At present, the Target Group has investment in, and operates, two waste-to-energy projects in Shandong Province and Hunan Province of the PRC (i.e. the Projects).

The Projects

The Shandong Project

The Taian Household Waste Incineration Power Generation Project (泰安生活垃圾焚燒發電項目), Shandong (the "**Shandong Project**") is operated by the KCS Taian Group under build-own-operate (BOO) arrangement with a franchised operation term of 30 years until July 2038. The Shandong Project is located to the south of Taian-Feicheng Highway in Daolang Town in the western part of Taian. The site is 12 kilometres from the city centre with an urban population of 700,000 and 800 metres from the nearest Chiziya Village (泰安市西部道朗鎮，泰肥公路以南，距離市中心12公里，距最近的池子崖村800米). The major customer of the Shandong Project is Taian Electric Power Company of Shandong Electric Power Group Corporation (山東電力集團公司泰安供電公司), a power company in Shandong Province and an Independent Third Party.

The Hunan Project

The Changde Household Waste Incineration Power Generation Project (常德市生活垃圾焚燒發電項目), Hunan (the "**Hunan Project**") is operated by the KCS Changde Group under build-operate-transfer (BOT) arrangement with franchised operation term of 27 years (including 2 years for construction period) until September 2037. The Changde Project is located at Tanshuping Village, Deshan Development Zone, Changde City, south to Changzhang Expressway, and at the crossroad of Road No. 12 and Road No. 10 in Deshan Development Zone (常德市德山開發區檀樹坪村，常張高速公路南側，德山開發區規劃的十二號路和十號路交界處). The major customer of the Hunan Project is Hunan Province Power Company (湖南省電力公司), a power company in Hunan Province and an Independent Third Party.

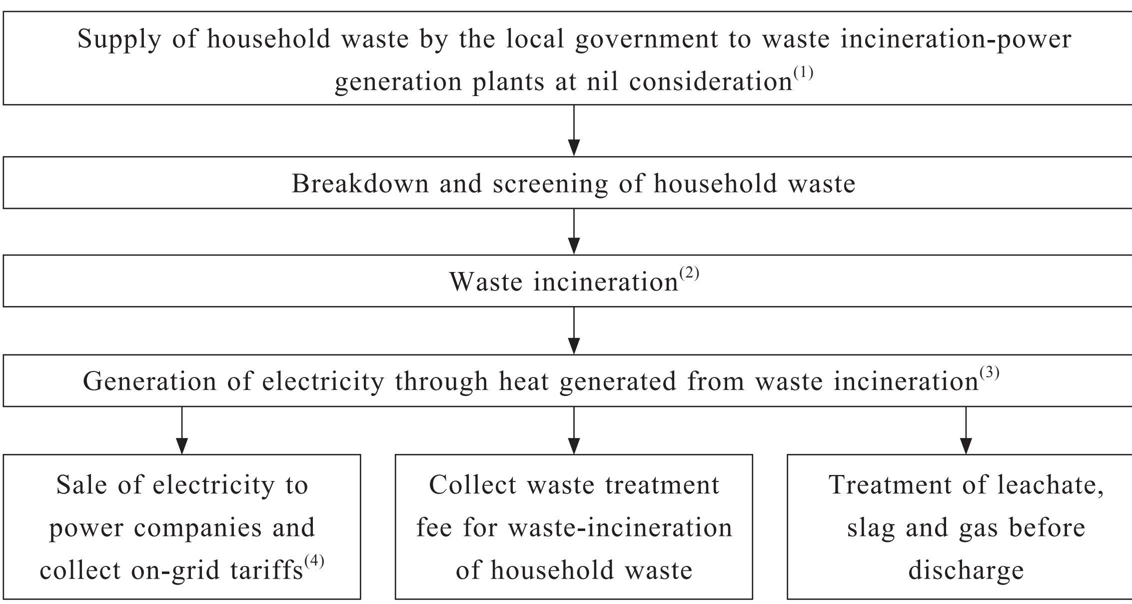
Both the Shandong Project and the Hunan Project adopt the circulating fluidized bed boiler burning technology. The circulating fluidized bed boiler burning technology is a clean process with the ability to achieve lower emission of pollutants. During the combustion phase, upwards jets of air will cause the solid fuels to be suspended. This is to ensure that gas and solids will mix together turbulently for better heat transfer and chemical reactions. The fuel will be burnt at a temperature of 1400ºF to 1700ºF to prevent nitrogen oxide from forming. While burning, flue gas such as sulphur dioxide will be released. At the same time, sulphur-absorbing chemical such as limestone or dolomite will be used to mix with the fuel particles in the fluidization phase, which will absorb almost 95% of the sulphur pollutants. The sulphur absorbing chemical and fuel will be recycled to increase the efficiency of producing a higher quality steam as well as lower the emission of pollutants. Therefore, it will be possible to use circulating fluidized bed boiler burning technology to burn fuel in a much more environmental friendly method as compared to other conventional processes.

Business model

The Target Group has entered into licensed operation agreements with the local governmental authorities, pursuant to which the Target Group has obtained rights to operate the project facilities of the Projects for the treatment of household waste. The Target Group generates income by (i) the collection waste treatment fees for waste-incineration treatment of household waste, and (ii) the collection of on-grid tariffs from the sale of waste-generated electricity to power companies. The Target Group is a business partner of the local government for the treatment of household waste in the relevant area.

Operation flow

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



Notes:

1. For the Shandong Project, the Taian Environmental Health Management Bureau（泰安市環境管理局）organises the collection and transportation of household waste in Taian and deliver to the power plant for incineration at nil consideration. For the Hunan Project, the Changde City Environmental Health Management Office（常德市環境衛生管理處）organises the collection and transportation of household waste in the urban area (including the rural area of Wuling Area), Hanshou County, Taoyuan County and urban-rural integration coordination zones to the power plant for incineration at nil consideration.

2. Both the Shandong Project and the Hunan Project employ circulating fluidized bed boiler technology for waste incineration. Besides solid waste collected and utilised as fuel for incineration, certain amount of coal is added to assist the combustion process.

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

4. The electricity generated at the waste incineration power generation plants is channeled into the grid system maintained by local power companies and sold to the local power companies. Each of the KCS Taian Group and the KCS Changde Group has signed sale and purchase contracts（購售電合同）with power companies in Shandong Province and Hunan Province, respectively, pursuant to which the power companies shall purchase the power generated by the Shandong Project and the Hunan Project, respectively.

Capacity

The current capacity and maximum capacity of each of the Projects are summarised as follows:

	Current capacity for the treatment of household waste	Maximum capacity for the treatment of household waste	Average amount of electricity generated per tonne of household waste	Current electricity capacity	Maximum electricity capacity
Shandong Project	750 tonnes per day	1,000 tonnes per day	294 kWh	270,000 kWh per day	294,000 kWh per day
Hunan Project	800 tonnes per day	1,000 tonnes per day	303 kWh	270,000 kWh per day	303,000 kWh per day

Revenue model

The revenue model of each of the Projects are summarised as follows:

	Waste treatment fee	On-grid Tariff
Shandong Project	RMB60 per tonne	RMB0.65 per kWh
Hunan Project	RMB50 per tonne	RMB0.65 per kWh

Licenses and permits obtained

Shandong Project

In July 2008, the relevant PRC governmental authority has approved the entering into a licensed operation agreement with respect to the Shandong Project by the relevant local authority with the KCS Taian Group, and the relevant licensed operation agreements has been executed with Taian City Construction State-owned Assets Management Co., Ltd.(泰安市城建國有資產經營有限公司). Pursuant to the licensed operation agreement, the KCS Taian Group obtained rights to operate the Shandong Project with a franchised operation term of 30 years until July 2038 under build-own-operate (BOO) arrangement. Pursuant to the licensed operation agreement, the parties to the agreement will negotiate on the terms and conditions of the second term of the franchised operation one year in advance before the end of the franchised operation period in 2038.

Hunan Project

In September 2006, the KCS Changde Group has entered into a licensed operation agreement with respect to the Hunan Project with Changde City Environmental Health Management Office(常德市環境衛生管理處), pursuant to which the KCS Changde Group obtained rights to operate the Hunan Project with a franchised operation term of 27 years until September 2037 under build-operate-transfer (BOT) arrangement. Under the BOT arrangement, the KCS Changde Group shall, upon the end of the operation term and after restorative repairments, transfer the Hunan Project to the relevant PRC governmental authority at nil consideration.

So far as the Company is aware, both the Shandong Project and the Hunan Project have complied with the major rule and regulation for waste incineration power generation business, namely Household Waste Incineration Power Generation Pollution Control Standard GB18485-2001(生活垃圾焚化污染控制標準GB18485-2001).

Financial information on the Target Group

Set out below is a summary of certain audited financial information of the Target Group for the two years ended 31 December 2012 and 31 December 2013:

	For the year ended 31 December	
	2013	**2012**
	(RMB)	*(RMB)*
Total net profit/(loss) (before taxation and extraordinary items)	30,803,000 (equivalent to approximately HK$39,477,000)	(3,702,000) (equivalent to approximately HK$(4,473,000))
Total net profit/(loss) (after taxation and extraordinary items)	29,171,000 (equivalent to approximately HK$37,386,000)	(6,162,000) (equivalent to approximately HK$(7,897,000))

The main reasons that the Target Group recorded a net profit for the financial year ended 31 December 2013 but incurred loss for the financial year ended 31 December 2012 are:

(i) improved operation in 2013 because of (a) the commencement of commercial operations of the Hunan Project in March 2012 followed by a full year of commercial operations in 2013, and (b) the improvement in operating efficiency with the existing equipment and with better cost control in the Shandong Project. The net profit of the Hunan Project has increased from RMB1,730,000 in 2012 to RMB21,588,000 in 2013, and the Shandong Project has improved from a net loss of RMB7,892,000 in 2012 to a net profit of RMB7,583,000 in 2013;

(ii) after the promulgation of the "Declaration for the Power Price Policy Perfection of Waste Incineration, [2012] No.801"（發改價格【2012】801號）in April 2012, the average electricity price per unit was increased from RMB0.55 per kWh to RMB0.65 per kWh since April 2012;

(iii) there was a higher volume of electricity generated in 2013 due to an increase of the volume of waste supplied in such year; and

(iv) there was an increase in waste treatment fees collected from the relevant governmental authorities for waste treatment in 2013 as a result of the increase in the volume of waste from 382,000 tonnes in 2012 to 602,000 tonnes in 2013, and the increase in the average waste treatment fee from RMB45 per tonne to RMB55 per tonne.

The audited total net asset value of the Target Group as at 31 December 2013 was approximately RMB27,929,000 (equivalent to approximately HK$35,795,000).

FUNDING ARRANGEMENT

Subject to the consent of BEHL and compliance with the Listing Rules, it is proposed that the Cash Consideration will be entirely financed by the net proceeds from the proposed issue of the Standby Bonds to the Subscriber. If the proposed issue of the aforesaid Standby Bonds does not proceed, the Cash Consideration will be financed by cash from internal resources of the Group and/or bank borrowings.

Impact on the shareholding structure of the Company

As at the Latest Practicable Date, BEHL Group is interested in 467,459,000 Shares, representing approximately 54.68% of the issued shares of the Company.

The Company understands from BEHL Group that prior to Completion, the Subscriber, a wholly-owned subsidiary of BEHL, intends to: (i) subscribe part of the Standby Bonds with an aggregate principal amount of not less than HK$113,000,000 upon receiving the requisite notice from the Company pursuant to the terms of the Standby Bonds, (ii) exercise the conversion rights attaching to the Firm Bonds in full such that an aggregate of 266,000,000 new Shares would fall to be allotted and issued to the Subscriber upon such conversion of the Firm Bonds, and (iii) subject to and upon completion of item (i) above, exercise the conversion rights attaching to part of the Standby Bonds in an aggregate principal amount of HK$22,600,000 such that an aggregate of 20,000,000 new Shares would fall to be allotted and issued to the Subscriber upon such conversion of the Standby Bonds.

Upon completion of items (i) to (iii) above prior to Completion, BEHL Group's shareholding interest in the Company would be increased from approximately 54.68% to approximately 66.04%. Upon the issue of the Consideration Shares at Completion and assuming that the Firm Bonds and the Standby Bonds were converted into new Shares as set out above prior to Completion, the shareholding interest of the BEHL Group in the Company would then be reduced to approximately 50.64%, and would therefore remain over 50% immediately after Completion. In view of the foregoing, the Company expects that the issue of the Consideration Shares to the Vendor under the Acquisition will not result in a change of control of the Company.

While it is the intention of the Company, and the Company understands that it is also the intention of the BEHL Group, to proceed with the proposals set out in items (i) to (iii) above, such proposals are subject to the terms and conditions of the Firm Bonds and the Standby Bonds. In particular, before the Company can serve the notice in item (i) above, certain pre-conditions must be satisfied pursuant to the terms of the Standby Bonds, including the despatch of this circular for the Acquisition, and the satisfaction of the Conditions. Therefore, the proposals set out in items (i) to (iii) above may or may not materialise.

If the above proposals do not materialise or if the proposals set out in items (i) to (iii) above can only be completed after Completion, the shareholding interest of the BEHL Group in the Company would then be reduced to approximately 38.89% immediately upon Completion.

Under Rule 26 of the Takeovers Code, if the shareholding interest of the BEHL Group in the Company is reduced to approximately 38.89%, the acquisition of voting rights by more than 2% from the lowest collective holding of voting rights in the Company in any 12-month period by the BEHL Group will trigger an obligation on the BEHL Group and persons acting in concert with it to make a general offer for all the shares and other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company other than those already owned or agreed to be acquired by them, unless a whitewash waiver is granted by the Securities and Futures Commission of Hong Kong and approved by the independent Shareholders.

Accordingly, if the above proposals do not materialise or if the proposals set out in items (i) to (iii) above can only be completed after Completion such that the shareholding interest of the BEHL Group in the Company is reduced to approximately 38.89%, and the interests of the BEHL Group (including the Subscriber) and persons acting in concert with it in the voting rights in the Company (whether by the exercise of the conversion rights attaching to the Firm Bonds/Standby Bonds or otherwise) is increased by more than 2% from their lowest collective holding of voting rights in the Company in any 12-month period, the BEHL Group and persons acting in concert with it will have the obligation to make such general offer unless a whitewash waiver is granted by the Securities and Futures Commission of Hong Kong and approved by the independent Shareholders by way of a poll.

The table below illustrated the shareholding structure of the Company (1) as at Latest Practicable Date; (2) immediately after full conversion of the Firm Bonds and partial conversion of the Standby Bonds; (3) immediately after full conversion of the Firm Bonds and partial conversion of the Standby Bonds and the issue of the Consideration Shares at Completion; and (4) immediately after the issue of the Consideration Shares at Completion but before full conversion of the Firm Bonds and partial conversion of the Standby Bonds, assuming that there are no changes to the Shares in issue other than changes as a result of events (2), (3) or (4) above, after the Latest Practicable Date and prior to Completion:

Shareholders	As at the Latest Practicable Date		Immediately after full conversion of the Firm Bonds and partial conversion of the Standby Bonds		Immediately after (i) full conversion of the Firm Bonds and partial conversion of the Standby Bonds, and (ii) the issue of the Consideration Shares at Completion		Immediately after the issue of the Consideration Shares at Completion, but before full conversion of the Firm Bonds and partial conversion of the Standby Bonds	
	Number of Shares	*Approximate percentage of shareholdings*	*Number of Shares*	*Approximate percentage of shareholdings*	*Number of Shares*	*Approximate percentage of shareholdings*	*Number of Shares*	*Approximate percentage of shareholdings*
BEHL Group	467,459,000	54.68%	753,459,000	66.04%	753,459,000	50.64%	467,459,000	38.89%
Directors								
— Mr. E Meng	601,000	0.07%	601,000	0.05%	601,000	0.04%	601,000	0.05%
— Mr. Zhang Honghai	4,000,000	0.47%	4,000,000	0.35%	4,000,000	0.27%	4,000,000	0.33%
— Mr. Ng Kong Fat, Brian	10,392,755	1.22%	10,392,755	0.91%	10,392,755	0.70%	10,392,755	0.87%
Vendor	—	—	—	—	347,000,000	23.32%	347,000,000	28.87%
Other public Shareholders	372,507,395	43.57%	372,507,395	32.65%	372,507,395	25.03%	372,507,395	30.99%
Total Shares in issue	**854,960,150**	**100%**	**1,140,960,150**	**100%**	**1,487,960,150**	**100%**	**1,201,960,150**	**100%**

As illustrated above, there is no change of control of the Company and the BEHL Group remains as the sole controlling Shareholder, and the shareholding in the Company held by public Shareholders will be above 25% in all scenarios. In addition, under the terms of the Firm Bonds and the Standby Bonds, the Subscriber shall not exercise any of the conversion rights attaching to such bonds if, following such exercise, minimum public float cannot be maintained. The BEHL Group (including the Subscriber) has further undertaken that the Subscriber shall not exercise any of the conversion rights attaching to the Firm Bonds and the Standby Bonds if, following such exercise and taking into account the Consideration Shares that may be allotted and issued to the Vendor (or its nominee) at Completion, minimum public float cannot be maintained.

REASONS AND BENEFITS FOR ENTERING INTO THE SALE AND PURCHASE AGREEMENT

The Company is incorporated in Hong Kong as an investment holding company. The principal activity of the Group's subsidiaries is the provision of IT related services, including: (i) system integration; (ii) construction of information networks and sale of related equipment; (iii) IT technical support and consultation services; and (iv) development and sale of software.

To build a stronger business foundation, broaden the source of income and improve the overall financial results of the Group, the Directors have been exploring all business opportunities, including the environmental protection business sector.

1. General background of global and the PRC environmental protection industry

1.1 Population growth, environmental pollution, energy conservation and emission reduction have become key issues attracting urgent attention worldwide. Global awareness to the environmental protection industry is beneficial to the development of such industry in the PRC

According to the statistics of the United Nations, the global population will increase from 7.2 billion in 2013 to 9.6 billion by 2050. Resource consumption and environmental pollution resulting from population growth are gradually receiving attention by various countries. In recent years, energy-saving and environmental protection has become the theme of future development for many countries. According to the "What a Waste: A Global Review of Solid Waste Management" report issued by the World Bank in March 2012, currently world cities generate about 1.3 billion tonnes of solid waste per year. This volume is expected to increase to 2.2 billion tonnes by 2025. Under increased global awareness of environmental protection, and due to the negligence of the issue of pollution by the PRC in the period of rapid economic development in the past, the issue of environmental protection is imminent for the PRC, the most populous nation in the world.

The rapid urbanisation of the PRC has created a series of problems to the living environment of its people. As at the end of 2013, the urban population of the PRC has reached 730 million, with an urbanisation rate of 53.7%, representing a significant increase from 26% as at the end of 1990. In the recent years of rapid development and urbanisation growth, the total waste generation of the PRC has increased significantly. The PRC surpassed the United States as the world's largest waste generator in 2004. Annual waste generation in the PRC makes up around 70% of the total waste generation in the East Asia-Pacific region. According to the National Bureau of Statistics of China, the amount of household waste clearance in the PRC in 2012 was approximately 170 million tonnes, representing an increase of 10.1% as compared with its first statistics in 2004. As forecasted by China Urban Construction Design & Research Institute, the amount of household waste clearance in the PRC will reach 268 million tonnes by 2015.

1.2 Waste incineration-power generation is the most optimal waste treatment method that achieves solid social benefits and has enormous room for market development

Given the relatively under-developed clearance system for household waste in the PRC, a vast amount of urban household waste are not subject to central collection, clearance and harmless treatment, leading to vast amount of waste accumulation. Moreover, landfills, which has low efficiency, is still the dominated waste treatment method in the PRC. In absence of a sound waste treatment system, a large volume of waste is not properly treated. Waste incineration-power generation is one of the best means for "conversion of household waste into resources, harmless treatment of household waste and volume reduction of household waste", and has been widely adopted overseas. Waste incineration-power generation is a technology that generates power through the incineration of classified waste. Compared with landfills and composting, incineration can effectively and significantly reduce waste size, save land, and seldom cause pollutions such as sewage infiltration. The calorific value generated can also be re-used for heating or power generation. It is the most optimal waste treatment method as it achieves the best economic and social benefits and enjoys clear overall advantages. On the basis that waste incineration-power generation encompasses the dual characteristics of energy-saving and environmental-friendly power generation as well as new energy power generation, together with the solid social benefits achieved, it is believed that in the coming years, conversion of waste into energy will become the predominant method of waste treatment.

According to the statistics for 2012 of the International Energy Agency, in 2010, the renewable energy in Asia accounts for 25.7% of the total primary energy supply, and the renewable energy in the PRC only accounts for 11.5% of its total primary energy supply. This shows that the PRC lags behind in the development of renewable energy, and will have enormous room for market development in the future. The International Energy Agency is an autonomous inter-governmental agency that provides internationally-recognised and authoritative research in energy sector. It was established in 1974 and had a long history in providing such research in energy sector.

Accordingly, the Board believes that under the rapid development of the environmental protection industry worldwide and in the PRC, with increasing waste generation and as waste incineration-power generation becomes the most optimal waste treatment, the waste incineration-power generation industry in the PRC has enormous room for market development.

2. The PRC national policies' concrete support to waste-to-energy industry

2.1 Environmental protection has been promoted to become the basic national policy of the PRC. The business development of waste-to-energy in the PRC has concrete policy support

Since 2012 when the PRC government listed energy-saving and environmental protection as the first of the seven major emerging industries under the Twelfth Five-Year Plan, the energy-saving and environmental protection industry in the PRC has developed rapidly over the past year. The consultation draft of the "Atmospheric Pollution Prevention Action Plan 2013-2017" (《大氣污染防治行動計劃2013-2017》) issued by the Ministry of Environmental Protection of the PRC after the National People's Congress and the Chinese People's Political Consultative Congress demonstrated the new government's determination and long-term plan for environmental protection. The Third Plenary Session of Central Committee in November 2013 further expressly stated the need to speed up the building of ecological civilisation system, and requested the improvement of modern market system to stimulate the release of substantial demand for environmental services.

Subsequently, the National Development and Reform Commission (the "NDRC") indicated on 13 February 2014 that, it will formulate and implement "Opinions on Accelerating Ecological Civilisation Construction" (《關於加快推進生態文明建設的意見》) for the overall deployment of ecological civilisation construction. The opinions strongly emphasised mainly on the promotion of energy conservation, emission reduction and carbon reduction, issue and implementation of "2014-2015 Energy Conservation, Emission Reduction and Carbon Reduction Action Plan" (《2014-2015年節能減排降碳行動計劃》), and formulation and promulgation of implementation plans for industrialisation projects of material energy-saving, environmentally protection and resource-recycling technologies and equipment. The opinions also mentioned that speeding up the implementation of plans for the construction of sewage treatment and household waste treatment plants in cities and towns across the PRC will be beneficial to the development of environmental protection and waste incineration-power generation industries.

According to "Twelfth Five-Year Plan for the Construction of Harmless Treatment Plants for Household Waste in Cities and Towns Across the State" (《"十二五"全國城鎮生活垃圾無害化處理設施建設規劃》) promulgated by the State Council, the waste-to-energy capacity allowed in 2015 is 310,000 tonnes, representing an increase of 240% as compared with 90,000 tonnes as at the end of 2010 and a compound annual growth rate of 28%. Therefore, the Board believes that the overall national policy of the PRC is driving the development of waste incineration-power generation industry.

2.2 Standardised pricing policy for waste incineration-power generation

In March 2012, the NDRC promulgated the "Circular on Improving the Pricing Policy for Waste Incineration-power Generation" (《關於完善垃圾焚燒發電價格政策的通知》), which stipulates that a national standardised benchmark on-grid tariff for waste-generated electricity of RMB0.65 per kWh (tax inclusive) is fixed for domestic waste incineration-power generation projects. This has further regulated the pricing policy for waste incineration-power generation and improved the cost-sharing system for waste incineration-power generation. In response to the requirements of the above policies, the local governments have successively invested in the construction of waste incineration-power plants, and extended preferential policy support to professional waste incineration-power generation companies. Such policies have become effective from 1 April 2012, and have provided continued room for growth for the development of the waste incineration-power generation industry.

2.3 Preferential financial and taxation policies for waste incineration-power generation

In terms of financial and taxation policies, the PRC government has stipulated that enterprises generating power or heat fuelled by waste with a waste to power generation fuel ratio of not less than 80% and up to standard production emission may apply for the "Resources Comprehensive Utilisation Certificate"(「資源綜合利用認證」) under the PRC government's support and may qualify for the preferential policy of immediate refund of value-added tax ("**VAT**") paid, of which 100% of the output VAT levied on revenue generated from sales of electricity by the waste incineration plants, net of input VAT prepaid for relevant purchases, will be paid in the month of which the revenue is generated and refunded upon application to the relevant tax authority in the subsequent months. For qualified treatments of public waste, enterprise income tax is exempted from the first year to the third year from the taxation year when they get their first operation income, and is reduced by 50% from the fourth year to the sixth year.

Accordingly, under the premise that the profitability of waste incineration-power generation projects is guaranteed by the standardisation of the pricing policy for waste incineration-power generation, and policies such as provisions of waste treatment subsidy and preferential tax treatment, the Board believes that the waste incineration-power generation industry possesses optimistic prospects.

3. Characteristics and advantages of waste-to-energy industry's operation and development

3.1 Steady cash flow

The profit model of waste-to-energy industry epitomises the characteristics of stable nature of business, controllable risks, as well as steady and strong cash flow. A project generally has an operating period ranging from 20 to 30 years. Upon commencement of operation, a minimum amount of waste treatment will be guaranteed by the local governments, while the waste treatment fees and on-grid tariffs at RMB0.65 per kWh stipulated by the PRC government will remain stable and free from the risk of fluctuating fuel prices.

3.2 High growth

In view of the above-mentioned prospects of market development in the general waste incineration-power generation industry and the support from governmental policies, the waste incineration-power generation business of the PRC will achieve rapid growth in the future.

3.3 Stable and reliable return

Waste-to-energy projects are characterised by high initial investment costs and low operating costs, and enjoy favourable on-grid tariffs and preferential taxation policies. Such projects can deliver stable and reliable return to their investors. The Board believes that the waste incineration-power generation business represents a very attractive investment opportunity and possesses optimistic prospect, and it is now the best time to enter the industry with first mover advantage and thereby become the leader in the industry. The Group considers that investment in the waste incineration-power generation business will deliver stable and reliable return to the Shareholders.

Accordingly, the Board believes that with the operating characteristics and advantages of waste incineration-power generation such as steady cash flow, high growth as well as stable and reliable returns, the Group's waste incineration-power generation business development will bring benefits and reliable return to the Shareholders.

4. Development of waste incineration-power generation business will facilitate the Group's transformation. BEHL's solid experience in the development of environmental protection business will facilitate the Group's waste incineration-power generation business development

4.1 There is an imminent need to improve the profitability and growth prospects of the existing businesses

Currently, the Group mainly develops its business in two major segments: system integration and information technology services. Despite years of operation and development, the businesses of the Group are shrinking. Excluding the one-off gain on disposal of Beijing Municipal Administration & Communications Card Co., Ltd. of HK$122,041,000 in 2011, the Group had incurred loss from 2008 to the first half of 2013. The Directors consider that in absence of a timely transformation, the Group's loss-making position will continue and it will be difficult to deliver value to the Shareholders.

4.2 *BEHL has track record in assisting the successful transformation of listed companies, and will provide solid experience in development of environmental protection business for reference, professional knowledge and a huge amount of financial support*

BEHL has accumulated extensive first-hand experiences from its track record of operating in the utilities and environmental protection sector, and has expressed to the Company that it intends to assist the Company to transform its business and to establish an environmental protection and solid waste treatment platform, improve the financial performance of the Company and explore diversified value-added business.

First of all, BEHL has ample experience in assisting listed companies to transform their business successfully. In particular, Beijing Enterprises Water Group Limited ("**BEWG**") is one of the very successful cases that BEHL assisted in the transforming BEWG's business into water-related business. As at 30 June 2013, BEWG participated in 204 water plants either in operation or going to operate in near future including 158 sewage treatment plants, 41 water distribution plants, 4 reclaimed water treatment plants and 1 seawater desalination plant. Total daily design capacity amounted to 12,630,000 tonnes, representing an increase of 20.4%. Daily capacity in operation was 8,130,000 tonnes, and daily capacity under development was 4,500,000 tonnes. BEWG enters projects all over the PRC, and has become a leading national water company in the PRC.

Secondly, as an utilities investment and financing platform under the State-owned Assets Supervision and Administration Commission (the "**SASAC**") of Beijing, BEHL is equipped with extensive industry experience in the utilities sector, covering natural gas, water, sewage and waste treatment and other businesses. As a subsector in the utilities space, solid waste treatment shares a lot of similarities with natural gas, water and sewage and waste treatment, hence BEHL is able to leverage on its rich industry knowledge, extensive relationship network and high-quality staff team that are already in place to support the Company's development in the waste-to-energy industry.

Thirdly, BEHL already owns solid waste treatment business. Founded on 16 August 2007, Beijing Enterprises Holdings Environment Technology Co. Ltd. ("**BEHET**"), a wholly-owned subsidiary of BEHL and a key component of BEHL′s utilities platform, is focused on investment, construction and operational management of the solid waste treatment projects. BEHET has accumulated rich industry experience and a high-quality staff team and possesses the Environmental Management System Certificate, Quality Management System Certificate and Environmental Pollution Control Facilities Operation Qualification Certificate (環境污染治理設施運營資質證書).

Fourthly, several senior management members of BEHL have actually been sitting on the Board or been part of its key management team. For example, Mr. E Meng, the Chairman of the Company, is an executive director and the executive vice president of BEHL, and the vice chairman and an executive director of BEWG. Mr. Zhang Honghai, an executive Director of the Company, is also the vice chairman and an executive director of BEHL, and the chairman and an executive director of BEWG. Mr. Ke Jian, the Vice Chairman of the Company, is also the vice president of BEHL, an executive director of BEWG, and the chairman of BEHET. Such arrangements will enable Mr. E, Mr. Zhang and Mr. Ke to transfer their past managerial experiences in environmental protection industry into the strategic planning and daily operations of the Company and help facilitate the deployment of internal resources within BEHL. For detailed background for each of Mr. E, Mr. Zhang and Mr. Ke, please refer to the 2012 annual report and the announcement dated 29 August 2013 of the Company.

Last but not least, BEHL is prepared to provide a huge amount of financial support to assist the Company in transforming its business. Reference is made to the circular dated 21 December 2012 of the Company, which disclosed that BEHL agreed to subscribe for new Shares, the Firm Bonds and the Standby Bonds at an aggregate consideration of approximately HK$3.5 billion. This demonstrates BEHL's approval and support to the Company's transformation.

Accordingly, taking into account (i) BEHL's solid experience in the development and operation of environmental protection business; (ii) the successful case of BEHL assisting a listed company to transform its business; and (iii) BEHL is prepared to provide a huge amount of financial support, the Board believes that the Group can develop waste incineration-power generation business successfully, thereby creating value for the Shareholders.

5. Benefits to the Group from the Acquisition

5.1 The Group proposes to acquire KCS Changde and KCS Taian, both being companies with scale advantage and scarcity value and dedicated to waste-to-energy business, to strategically transform its business

Upon Completion, the Group will commence its strategic transformation successfully, restructure its existing business portfolio, invest in environmental protection and solid waste pollution control industry, and enter the waste incineration-power generation industry. In addition, the Group will have a daily waste treatment capacity of 2,000 tonnes. Since the other major listed Chinese waste-to-energy companies, including China Everbright International Limited, China Power New Energy Development Company Limited, Shenzhen Energy Group Co., Ltd., Sound Environmental Resources Co., Ltd, and Grandblue Environment Co., Ltd. (formerly known as Nanhai Development Co., Ltd.), all have a significant amount of revenue contribution from other business segments than waste-to-energy business, the Group will also become the sole pure play that focuses on waste power-generation business amongst its listed comparable companies in the PRC, demonstrating both scale advantage and scarcity value.

In order to accelerate such strategic transformation, establish business capability in participating in the waste incineration-power generation sector, improve its financial performance and maximise return to the Company and its shareholders in the long run, the Company has decided to enter into the Sale and Purchase Agreement with the Vendor to capitalise on the business opportunities in this sector.

The Directors consider that the Sale and Purchase Agreement is on normal commercial terms and the terms of the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Apart from the Acquisition, the Company has the intention and is under negotiations to acquire new business and is also actively exploring other new business opportunities through organic growth and strategic acquisitions to swiftly capture market share in the waste-to-energy sector in the PRC, and to become the largest and the most valuable waste incineration-power generation player in the PRC, thereby creating value for the Shareholders. However, save for the Sale and Purchase Agreement, the increase of Capital Contract and other ancillary contracts thereto, no agreement, arrangement or understanding has been concluded as at the Latest Practicable Date. Therefore, such other potential investment opportunities may or may not materialise. Given such uncertainty, the Company does not have any present intention, negotiation, agreement, arrangement or understanding to dispose of, scale-down and/or terminate its existing businesses, particularly, the IT business and/or its major operating assets as at the date of this circular, and it is the present intention of the Company to continue its existing business as at the date of this circular.

FINANCIAL AND TRADING PROSPECT OF THE ENLARGED GROUP

The Group is engaged in the provision of IT related services. Despite years of operation and development, the businesses of the Group are shrinking. The Directors consider that in absence of a timely transition, the Group's loss-making position will continue and it will be difficult to deliver value to the Shareholders. To build a stronger business foundation, broaden the source of income and improve the overall financial results of the Group, the Company has been exploring all business opportunities including the environmental protection business sector with a view to build a stronger business foundation, broaden the source of income and improve the overall results of the Group. In particular, based on the reasons set out in the section headed "Reasons and benefits for entering into the Sale and Purchase Agreement" above, the Company believes that the waste incineration-power generation is a market with vast prospects, delivers good social efficiency and provides stable cash flow. Accordingly, the Acquisition will only be one of the first steps for the Company to strengthen its business foundation and enter into the environmental protection industry.

The Group has committed to commence its strategic transformation to enter the waste incineration-power generation industry through restructuring its existing business portfolio and investing in environmental protection and solid waste pollution control industry. The Directors consider that such strategic transformation and development will improve the Group's financial performance and maximise return to the Company and its shareholders in the long run.

Regarding the Acquisition, as both the Shandong Project and the Hunan Project have generated net profit and positive cash flow for the year ended 31 December 2013, therefore, the Directors consider that the capital expenditure requirements can be satisfied by KCS Changde's and KCS Taian's internal financing resources, without further funding injection from the Group.

Apart from the Acquisition and as disclosed in the Company's announcement dated 14 January 2014, the Company has the intention and is under negotiations to acquire new business in the waste-to-energy industry and is also actively exploring other new business opportunities through organic growth and strategic acquisitions to swiftly capture market share in the waste-to-energy sector in the PRC, and to become the largest and the most valuable waste incineration-power generation player in the PRC. As disclosed in the Company's announcements dated 28 June 2012 and 27 February 2014, the Group has entered into the Increase of Capital Contract in respect of the Haidian Project and was under negotiations with the relevant government authorities regarding the waste treatment fee during the operation period of the Haidian Project, the transaction structure and other terms and conditions. However, save for the Sale and Purchase Agreement, the Increase of Capital Contract and other ancillary contracts thereto, no arrangement has been concluded for such negotiations as at the Latest Practicable Date. The Directors consider that there will be significant funding requirement once any agreement, arrangement or understanding of these new business opportunities has been concluded. On 21 December 2012, the Company disclosed that BEHL agreed to subscribe for new Shares, the Firm Bonds and the Standby Bonds at an aggregate consideration of approximately HK$3.5 billion. The Directors consider that such huge amount of financial support prepared by BEHL will help to fulfil the potential funding requirement in future as mentioned above and the Group's liquidity and cash flow will be maintained.

Upon Completion, the Enlarged Group will, through the Target Group, engage in waste incineration-power generation business. The Group believes that the Acquisition will provide considerable diversification effect to it and help it to expand into the environmental protection industry, in particular, the waste incineration-power generation business sector.

Management of the Target Group

Set out below are the biographical details of the general managers of the Target Group:

Mr. Jiang Song (姜松), aged 39, graduated from Huai Nan Mining College (淮南礦業學院) in 1996 and majored in Thermal and Power Engineering. From 1997 to 2010, Mr. Jiang has held the positions of operation supervisor, project manager and plant manager in certain power corporations. Mr. Jiang joined the Target Group as project manager in 2010 and has been acting as the general manager of the Shandong Project from 2012.

Mr. Tao Yuyin (陶余銀), aged 49, graduated from Anhui Electrical College (安徽電力學校) in 1982 and majored in Power Generation and Supply. From 1982 to 2010, Mr. Tao has held the positions of operation supervisor, vice plant manager and plant manager in certain power corporations. Mr. Tao joined the Target Group in operation department in 2010 and has been acting as the general manager of the Hunan Project from 2012.

It is the intention of the Company to retain all existing technical employees, including the aforesaid general managers, of the Target Group upon the Completion.

Risk relating to the Target Group's business

The Target Group depends on the PRC government's policies and regulatory framework supporting renewable energy development.

The Board is aware that the development and profitability of waste-to-energy power projects in the PRC is significantly dependent on policies and regulatory frameworks that support such development. From time to time, changes in the rules and regulations or the implementation thereof may require the Enlarged Group to obtain additional approvals from the PRC authorities or fulfill additional requirements for the conduct of our operations in the PRC. In such event, the Enlarged Group may incur additional expenses in order to comply with such requirements. This will in turn affect the financial performance of the Enlarged Group as its business costs will increase, and hence our overall financial performance will be adversely affected.

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

Given the unique nature of the waste-to-energy business, the Target Group requires highly skilled employees with particular expertise and experienced senior management for the operation of the waste-incineration power generation plant. The operation of the plant could be undermined by failure to recruit or retain key personnel, or the unexpected loss of key senior employees. The Enlarged Group will continue to offer competitive remuneration packages and provide suitable training opportunities in order to retain and recruit qualified staff. Besides, with the key management of BEHL who has vast experiences in environmental protection industry, it will assist in providing supports in the strategic planning and daily operations of the Target Group as well as facilitating the deployment of human resources from BEHL to ensure the smooth operation of the waste-incineration power generation plant.

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

The Target Group relies on the waste-incineration power generation plants for the generation of electricity and waste treatment. Any significant damage to the waste-incineration power generation plants from natural or other causes could be costly and time-consuming to repair, and could disrupt the operating activities of the business. In such an event, the Target Group would be forced to suspend operation until repairing is completed. This may result in additional costs, and there is no assurance that the Enlarged Group would be able to complete repairing in due course. Despite the disaster recovery plans and property insurance currently in place, such plans and insurance may not be sufficient to cover all of the potential losses resulting from such damage and disruptions to the Enlarged Group on acceptable terms, or at all.

Financial and other impact

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

Possible effect on earnings

As at 31 December 2012, the loss attributable to equity shareholders of the Company was HK$18,833,000. As presented in the unaudited pro forma consolidated statement of profit or loss the Enlarged Group as set out in Appendix IV to this circular, had the Acquisition been completed on 1 January 2012, the Target Companies would bring a profit of approximately HK$37,385,000, which will reverse the loss-making situation of the Group.

Possible effect on net assets value

As set out in Appendix IV to this circular, the unaudited pro forma consolidated statement of financial position of the Enlarged Group illustrates the effect of completion of the Acquisition on the Group, assuming that the Acquisition had taken place on 30 June 2013. Had the Acquisition been completed on 30 June 2013, and without taking into account the financial effect of subscription of part of the Standby Bonds by the Subscriber and conversion of the Firm Bonds in full and part of the Standby Bonds, the pro forma total assets of the Enlarged Group as at 30 June 2013 will be increased from approximately HK$1,395,436,000 to approximately HK$2,635,014,000, and the pro forma net assets value of the Enlarged Group as at 30 June 2013 will be increased from approximately HK$924,738,000 to approximately HK$2,097,068,000.

Possible effect on liquidity

The Company expects to finance the Acquisition by the net proceeds from the proposed issue of the Standby Bonds to the Subscriber. Had the Acquisition been completed on 30 June 2013, and without taking into account the fact that the Company proposes to finance the Cash Consideration by the proceeds from the issue of the Standby Bonds to the Subscriber, the Group will maintain its net cash level and will not have any bank borrowing. The pro forma cash and bank balances of the Enlarged Group as at 30 June 2013 will be decreased slightly from approximately HK$1,127,218,000 to approximately HK$1,064,635,000.

In light of the above, the Board considers that the Acquisition represents a golden opportunity to the Group to establish an immediate presence in waste incineration-power generation operation in the PRC, and is in the interests of the Company and its Shareholders as a whole.

LISTING RULES IMPLICATIONS

As one of the applicable percentage ratios as defined in Rule 14.07 of the Listing Rules for the Acquisition exceed 100%, the Acquisition constitutes a very substantial acquisition of the Company under Chapter 14 of the Listing Rules and is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules. BEHL, the controlling shareholder of the Company, has indicated its intention to vote in favour of the resolution to approve the Acquisition at the EGM to be convened to, among other things, consider the Acquisition. As at the Latest Practicable Date, the BEHL Group is interested in 467,459,000 Shares, representing approximately 54.68% of the issued shares of the Company.

As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief, no Shareholder has any material interest in the Acquisition and therefore no Shareholder and his/her associate are required to abstain from voting on the resolution to be proposed at the EGM.

GENERAL

A notice convening the EGM to be held at 66th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Tuesday, 15 April 2014 at 11:00 a.m. to consider and, if thought fit, to approve, the Sale and Purchase Agreement and the transactions contemplated thereunder is set out on pages EGM-1 and EGM-2 of this circular.

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

RECOMMENDATION

The Directors consider that the Sale and Purchase Agreement is on normal commercial terms and the terms of the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and its Shareholders as a whole. Accordingly, the Directors recommend that all the Shareholders should vote in favour of the proposed ordinary resolution set out in the notice of the EGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder.

ADDITIONAL INFORMATION

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

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

1. FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for each of the three years ended 31 December 2010, 2011 and 2012 and for the six months ended 30 June 2013 are disclosed in the following documents which have been published on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (www.bdhk.com.hk):

- the annual report 2010 of the Company for the year ended 31 December 2010 dated 31 March 2011 (pages 24 to 106);
- the annual report 2011 of the Company for the year ended 31 December 2011 dated 26 March 2012 (pages 23 to 86);
- the annual report 2012 of the Company for the year ended 31 December 2012 dated 27 March 2013 (pages 25 to 90); and
- the interim report 2013 of the Company for the six months ended 30 June 2013 dated 29 August 2013 (pages 7 to 23).

2. INDEBTEDNESS STATEMENT OF THE ENLARGED GROUP

As at the close of business on 31 January 2014, being the latest practicable date for the purpose of the indebtedness statement prior to the printing of this circular, the Enlarged Group had convertible bonds in the principal amount of HK$300,580,000 (i.e. the Firm Bonds) and the loans owing by each of the Target Group to the Vendor in the aggregate amount of US$71,531,751.70 (equivalent to approximately HK$555,227,000) (i.e. the Shareholders Loans). Save as aforesaid, the Enlarged Group did not have any mortgages, charges, debentures, loan capital, bank overdrafts, loans, liabilities under acceptance (other than under normal trade bills) or similar indebtedness, hire purchase or finance lease obligations or any guarantees or other material contingent liabilities as at the close of business on 31 January 2014.

3. WORKING CAPITAL OF THE ENLARGED GROUP

The Directors, after due and careful enquiry, are of the opinion that, after taking into consideration the present financial resources available to the Enlarged Group, including internally generated revenue and funds of the Enlarged Group, the Enlarged Group will have sufficient working capital to meet its present requirements for at least 12 months from the date of this circular.

The Directors further confirmed that they did not consider other banking facilities available to the Enlarged Group while arriving at the above statement.

The following is the text of a report received from the reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

EY 安永

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27 March 2014

The Board of Directors
Beijing Development (Hong Kong) Limited

Dear Sirs,

We set out below our report on the financial information of KCS Taian Investments Company Limited ("KCS Taian") and its subsidiary (hereinafter collectively referred to as the "KCS Taian Group") comprising the consolidated statements of profit or loss, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the KCS Taian Group for each of the three years ended 31 December 2011, 2012 and 2013 (the "Relevant Periods"), and the consolidated statements of financial position of the KCS Taian Group and the statements of financial position of KCS Taian as at 31 December 2011, 2012 and 2013, together with the notes thereto (the "Financial Information"), for inclusion in the circular of Beijing Development (Hong Kong) Limited (the "Company") dated 27 March 2014 (the "Circular") in connection with, amongst other matters, the Company's proposed acquisition of the entire issued capital and the shareholder's loans in KCS Taian (the "KCS Taian Acquisition").

KCS Taian was incorporated as a limited liability company on 24 April 2007 in Hong Kong. The principal activity of KCS Taian is investment holding and the principal activities of the KCS Taian Group during the Relevant Periods were waste incineration and power generation in the People's Republic of China (the "PRC").

The statutory financial statements of KCS Taian for the three years ended 31 December 2011, 2012 and 2013 were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and were audited by us.

As at the end of the Relevant Periods, KCS Taian has direct interest in a subsidiary as set out in note 18 of Section II below. All companies now comprising the KCS Taian Group have adopted 31 December as their financial year end date. The statutory financial statements of the subsidiary registered in the PRC for each of the Relevant Periods were prepared in accordance with the accounting principles and financial regulations applicable to PRC entities and were audited by Ernst & Young Hua Ming LLP.

For the purpose of this report, the directors of KCS Taian have prepared the consolidated financial statements of the KCS Taian Group (the "Underlying Financial Statements") for the Relevant Periods in accordance with HKFRSs. The Underlying Financial Statements for each of the three years ended 31 December 2011, 2012 and 2013 were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information set out in this report has been prepared from the Underlying Financial Statements with no adjustments made thereon.

DIRECTORS' RESPONSIBILITY

The directors of KCS Taian are responsible for the preparation of the Underlying Financial Statements and the Financial Information that give a true and fair view in accordance with HKFRSs, and for such internal control as the directors of KCS Taian determine is necessary to enable the preparation of the Underlying Financial Statements and the Financial Information that are free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

It is our responsibility to form an independent opinion on the Financial Information and to report our opinion thereon to you.

For the purpose of this report, we have examined the Underlying Financial Statements and have carried out procedures on the Financial Information in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

OPINION IN RESPECT OF THE FINANCIAL INFORMATION

In our opinion, for the purpose of this report, the Financial Information gives a true and fair view of the state of affairs of the KCS Taian Group and of KCS Taian as at 31 December 2011, 2012 and 2013, and of the consolidated results and cash flows of the KCS Taian Group for each of the Relevant Periods.

I. FINANCIAL INFORMATION

Consolidated Statements of Profit or Loss

		Year ended 31 December		
		2011	2012	2013
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	*7*	37,494	38,006	57,011
Cost of sales		(44,800)	(39,776)	(48,513)
Gross profit/(loss)		(7,306)	(1,770)	8,498
Other income and gains, net	*8*	13,397	2,620	7,159
Administrative expenses		(5,910)	(6,533)	(6,314)
Other expenses		(57)	(649)	(650)
Finance costs	*10*	(796)	(727)	(338)
Profit/(loss) before tax	*9*	(672)	(7,059)	8,355
Income tax expense	*13*	(1,538)	(833)	(772)
PROFIT/(LOSS) FOR THE YEAR		(2,210)	(7,892)	7,583
PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO THE OWNER OF THE PARENT	*14*	(2,210)	(7,892)	7,583

Consolidated Statements of Comprehensive Income

	Year ended 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
PROFIT/(LOSS) FOR THE YEAR	(2,210)	(7,892)	7,583
Other comprehensive income for the year	—	—	—
TOTAL COMPREHENSIVE INCOME/ (LOSS) FOR THE YEAR	(2,210)	(7,892)	7,583
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR ATTRIBUTABLE TO THE OWNER OF THE PARENT	(2,210)	(7,892)	7,583

Consolidated Statements of Financial Position

		As at 31 December		
		2011	2012	2013
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT ASSETS				
Property, plant and equipment	*15*	206,782	193,303	180,160
Intangible asset	*16*	9,000	7,667	6,334
Prepaid land lease payments	*17*	8,094	7,910	7,726
Total non-current assets		223,876	208,880	194,220
CURRENT ASSETS				
Inventories	*19*	3,530	2,498	3,161
Trade receivables	*20*	11,015	17,042	10,825
Prepayments and other receivables	*21*	21,824	19,321	16,469
Cash and cash equivalents	*22*	6,155	6,031	24,112
Total current assets		42,524	44,892	54,567
CURRENT LIABILITIES				
Trade payables	*23*	3,362	3,244	6,503
Other payables and accruals	*24*	11,917	13,544	13,587
Due to a related company	*28(ii)(a)*	13,925	9,560	400
Due to the immediate holding company	*28(ii)(b)*	239,490	237,120	230,413
Due to the ultimate holding company	*28(ii)(c)*	1,624	2,114	2,111
Total current liabilities		270,318	265,582	253,014
NET CURRENT LIABILITIES		(227,794)	(220,690)	(198,447)
Net liabilities		(3,918)	(11,810)	(4,227)
EQUITY				
Issued capital	*25*	9	9	9
Accumulated losses	*26(a)*	(3,927)	(11,819)	(4,236)
Deficiency in assets		(3,918)	(11,810)	(4,227)

Consolidated Statements of Changes in Equity

	Attributable to the owner of KCS Taian		
	Issued capital	**Accumulated losses**	**Deficiency in assets**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2011	9	(1,717)	(1,708)
Loss and total comprehensive loss for the year	—	(2,210)	(2,210)
At 31 December 2011 and 1 January 2012	9	(3,927)	(3,918)
Loss and total comprehensive loss for the year	—	(7,892)	(7,892)
At 31 December 2012 and 1 January 2013	9	(11,819)	(11,810)
Profit and total comprehensive income for the year	—	7,583	7,583
At 31 December 2013	9	(4,236)	(4,227)

Consolidated Statements of Cash Flows

		Year ended 31 December		
		2011	**2012**	**2013**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit/(loss) before tax		(672)	(7,059)	8,355
Adjustments for:				
Finance costs	*10*	796	727	338
Depreciation	*9*	13,854	13,784	13,880
Amortisation of intangible assets	*9*	1,333	1,333	1,333
Amortisation of prepaid land lease payments	*9*	184	184	184
Impairment of trade receivables	*9*	—	613	—
Impairment of other receivables	*9*	—	—	630
Loss on disposal of items of property, plant and equipment	*9*	38	34	20
		15,533	9,616	24,740
Decrease/(increase) in inventories		1,934	1,032	(663)
Decrease/(increase) in trade receivables		(661)	(6,027)	6,217
Increase in prepayments and other receivables		(710)	(921)	(886)
Increase/(decrease) in trade payables		(57)	(1,575)	3,259
Increase in other payables and accruals		1,996	4,824	2,646
Decrease in an amount due to the immediate holding company		(11,890)	(2,370)	(6,707)
Increase/(decrease) in an amount due to the ultimate holding company		614	490	(3)
Net cash flows from operating activities		6,759	5,069	28,603

		Year ended 31 December		
		2011	**2012**	**2013**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of items of property, plant and equipment		—	(37)	(733)
Purchases of intangible assets		(5,188)	(402)	(283)
Proceed from disposal of items of property, plant and equipment		9	507	260
Net cash flows from/(used in) investing activities		(5,179)	68	(756)
CASH FLOWS FROM FINANCING ACTIVITIES				
Interest paid		(796)	(727)	(338)
Decrease in an amount due to a related company		(1,000)	(4,534)	(9,428)
Net cash flows used in financing activities		(1,796)	(5,261)	(9,766)
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS		(216)	(124)	18,081
Cash and cash equivalents at beginning of year		6,371	6,155	6,031
CASH AND CASH EQUIVALENTS AT END OF YEAR	*22*	6,155	6,031	24,112

Statements of Financial Position

		As at 31 December		
		2011	**2012**	**2013**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT ASSET				
Investment in a subsidiary	*18*	128,262	128,262	128,262
Total non-current asset		128,262	128,262	128,262
CURRENT ASSETS				
Due from a subsidiary	*18*	138,608	144,638	148,051
Cash and cash equivalents	*22*	3	4	4
Total current assets		138,611	144,642	148,055
CURRENT LIABILITIES				
Other payables	*24*	45	44	24
Due to the immediate holding company	*28(ii)(b)*	239,490	237,120	230,413
Due to the ultimate holding company	*28(ii)(c)*	1,624	2,114	2,111
Total current liabilities		241,159	239,278	232,548
NET CURRENT LIABILITIES		(102,548)	(94,636)	(84,493)
Net assets		25,714	33,626	43,769
EQUITY				
Issued capital	*25*	9	9	9
Retained earnings	*26(b)*	25,705	33,617	43,760
Total equity		25,714	33,626	43,769

II. NOTES TO FINANCIAL INFORMATION

1. CORPORATE INFORMATION

KCS Taian is a limited liability company incorporated in Hong Kong. The registered office of KCS Taian is located at 36/F, Tower Two, Times Square, Matheson Street, Causeway Bay, Hong Kong.

During the Relevant Periods, the principal activity of KCS Taian is investment holding. The principal activities and other particulars of its subsidiary are set out in note 18 below.

In the opinion of the directors, KCS Taian's immediate holding company is KCS Green Energy International (Group) Investments Company Limited ("KCS Green Energy"), a company incorporated and domiciled in Hong Kong, and the ultimate holding company of KCS Taian is Khazanah Nasional Berhad ("KNB"), a company incorporated and domiciled in Malaysia and wholly owned by the Minister of Finance (Incorporated), a body corporate which was incorporated under the Minister of Finance (Incorporation) Act, 1967, of Malaysia.

2.1 STATEMENT OF COMPLIANCE

The Financial Information has been prepared from the Underlying Financial Statements of the KCS Taian Group. The Underlying Financial Statements have been prepared in accordance with HKFRSs (which include all Hong Kong Financial Reporting Standards, HKASs and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. All HKFRSs effective for the accounting period commencing from 1 January 2013, together with the relevant transitional provisions, have been early adopted by the KCS Taian Group in the preparation of the Financial Information throughout the Relevant Periods.

2.2 BASIS OF PREPARATION

The Financial Information has been prepared under the historical cost convention and is presented in Renminbi ("RMB"), which is also the functional currency of KCS Taian, and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The Financial Information includes the financial statements of KCS Taian and its subsidiary for the three years ended 31 December 2011, 2012 and 2013. The results of the subsidiary are consolidated from the date of acquisition, being the date on which the KCS Taian Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the KCS Taian Group are eliminated on consolidation in full.

Basis of presentation

The Financial Information set out in this report has been prepared under the going concern concept, notwithstanding that the KCS Taian Group and KCS Taian had net current liabilities of RMB198,447,000 and RMB84,493,000 as at 31 December 2013, respectively, because (i) the ultimate holding company of KCS Taian has confirmed that it intends to provide continual financial support and adequate funds to the KCS Taian Group and KCS Taian to meet their liabilities as and when they fall due until the completion of the KCS Taian Acquisition or for the coming 12 months from the date of this report, whichever is earlier; and (ii) the Company has agreed to provide the same financial support to the KCS Taian Group and KCS Taian after the completion of the KCS Taian Acquisition. Accordingly, the Financial Information has been prepared on a going concern basis which assumes, among other things, the realisation of assets and satisfaction of liabilities in the normal course of business.

Should the KCS Taian Group and KCS Taian be unable to continue in business as going concerns, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for further liabilities that may arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The Financial Information does not include any adjustments that would result from the failure of the KCS Taian Group and KCS Taian to continue in business as going concerns.

3. ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The KCS Taian Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 9	*Financial Instruments*[4]
HKFRS 9, HKFRS 7 and HKAS 39 Amendments	*Hedge Accounting and amendments to HKFRS 9, HKFRS 7 and HKAS 39*[4]
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) — *Investment Entities*[1]
HKAS 19 Amendments	Amendments to HKAS 19 *Employee Benefits — Defined Benefit Plans: Employee Contributions*[2]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities*[1]
HKAS 39 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement — Novation of Derivatives and Continuation of Hedge Accounting*[1]
HK(IFRIC)-Int 21	*Levies*[1]
Annual Improvements 2010-2012 Cycle	Amendments to a number of HKFRSs issued in January 2014[2]
Annual Improvements 2011-2013 Cycle	Amendments to a number of HKFRSs issued in January 2014[2]
HKFRS 14	*Regulatory Deferral Accounts*[3]

1 Effective for annual periods beginning on or after 1 January 2014
2 Effective for annual periods beginning on or after 1 July 2014
3 Effective for annual periods beginning on or after 1 January 2016
4 No mandatory effective date yet determined but is available for adoption

While the adoption of some of the new and revised HKFRSs may result in changes in accounting policies, none of these new and revised HKFRSs is expected to have a significant impact on the KCS Taian Group's results of operations and financial position.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiary

A subsidiary is an entity, directly or indirectly, controlled by KCS Taian. Control is achieved when the KCS Taian Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the KCS Taian Group the current ability to direct the relevant activities of the investee).

The results of the subsidiary are included in KCS Taian's profit or loss to the extent of dividends received and receivable. KCS Taian's investment in a subsidiary is stated at cost less any impairment losses.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the KCS Taian Group, liabilities assumed by the KCS Taian Group to the former owners of the acquiree and the equity interests issued by the KCS Taian Group in exchange for control of the acquiree. For each business combination, the KCS Taian Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the KCS Taian Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of HKAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the KCS Taian Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The KCS Taian Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the KCS Taian Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the KCS Taian Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statements of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired assets.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statements of profit or loss in the period in which it arises (only if there are revalued assets in the financial statements), unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to the KCS Taian Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the KCS Taian Group;

(ii) has significant influence over the KCS Taian Group; or

(iii) is a member of the key management personnel of the KCS Taian Group or of a parent of the KCS Taian Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the KCS Taian Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the KCS Taian Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the KCS Taian Group or an entity related to the KCS Taian Group; and the sponsoring employers of the post-employment benefit plan;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(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).

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Depreciation is calculated on a straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	4.75%
Plant and machinery	6.33%-23.75%
Motor vehicles	9.50%

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statements of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Patents and Licences

Purchased patents and licences are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 10 years or the period of the duration of operation.

Financial instruments

The KCS Taian Group classifies its financial instruments into the following categories at inception, depending on the purpose for which the assets were acquired or the liabilities were incurred.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains, net in the statements of profit or loss. The loss arising from impairment is recognised in the statements of profit or loss in other operating expenses.

Financial liabilities

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The KCS Taian Group's financial liabilities include trade and other payables and amounts due to a related company, the immediate holding company and the ultimate holding company.

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the KCS Taian Group's consolidated statements of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the KCS Taian Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the KCS Taian Group has transferred substantially all the risks and rewards of the asset, or (b) the KCS Taian Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in first-out basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statements of cash flows, cash and cash equivalents comprise cash on hand and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the KCS Taian Group's cash management.

For the purpose of the statements of financial position, cash and bank balances comprise cash on hand and at banks, which are not restricted as to use.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the KCS Taian Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of electricity and steam, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the KCS Taian Group retains neither continuing managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the provision of waste treatment services, revenue is recognised when the service is rendered and it is probable that the economic benefits will flow to the KCS Taian Group; and

(c) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Pension schemes

Certain companies within the KCS Taian Group have participated in a number of defined contribution retirement benefit schemes required by the respective local governments in which they operate for their employees. Contributions are made based on a certain percentage of the covered payroll and are held separately from those of the KCS Taian Group in independently administered funds. The KCS Taian Group's employer contributions vest fully with the employees when contributed into the schemes.

Foreign currency

The Financial Information is presented in RMB, which is KCS Taian's functional and presentation currency. Each entity in the KCS Taian Group determines its own functional currency and items included in the Financial Information of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the KCS Taian Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the KCS Taian Group's Financial Information requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying KCS Taian's accounting policies, management has made the following judgments, apart from those involving estimations which have the most significant effect on the amounts recognised in the Financial Information.

Income taxes

Significant judgments on the future tax treatment of certain transactions are required in determining income tax provisions. The KCS Taian Group carefully evaluates tax implications of transactions and tax provisions are recorded accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation.

Estimation uncertainty

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, are described below.

Impairment of trade receivables and other receivables

The policy for provision for impairment of trade receivables and other receivables of the KCS Taian Group is based on the evaluation of collectability and the ageing analysis of accounts and on management's estimation. A considerable amount of estimation is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor. If the financial conditions of debtors are to deteriorate resulting in an impairment of their ability to make payments, additional allowances may be required.

Useful lives and residual values of property, plant and equipment

The KCS Taian Group's management determines the useful lives, residual values and related depreciation for the KCS Taian Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management of the KCS Taian Group will increase the depreciation charges where useful lives or residual values are less than previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore depreciation in the future periods.

Impairment of property, plant and equipment

The carrying amounts of items of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying amounts may not be recoverable in accordance with the accounting policy as disclosed in note 4 to the Financial Information. The recoverable amount of an item of property, plant and equipment is the higher of its fair value less costs to sell and value in use, and calculations of which involve the use of estimates. In estimating the recoverable amounts of assets, various assumptions, including future cash flows to be associated with the non-current assets and discount rates, are made. If future events do not correspond to such assumptions, the recoverable amounts will need to be revised, and this may have an impact on the KCS Taian Group's results of operations or financial position.

6. SEGMENT INFORMATION

From the perspective of KCS Taian's directors, it is considered that the KCS Taian Group's operation is focused on the group as a whole, and all revenue and operating results of the KCS Taian Group are derived from the waste-to-energy services (including both waste incineration and power generation) from the PRC.

The non-current assets of the KCS Taian Group are all located in the PRC.

During the Relevant Periods, more than 10% of the total revenue was derived from a single customer as follows:

	Year ended 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Customer A	23,945	24,825	33,842

7. REVENUE

Revenue, which is also the KCS Taian Group's turnover, represents the net sales of electricity and steam; and income from waste treatment. The revenue is analysed as follows:

	Year ended 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Sale of electricity	23,945	24,825	33,842
Waste treatment	12,056	11,427	21,181
Sale of steam	1,493	1,754	1,988
	37,494	38,006	57,011

8. OTHER INCOME AND GAINS, NET

	2011	2012	2013
	Year ended 31 December		
	RMB'000	*RMB'000*	*RMB'000*
Other income			
Training service income	1,483	238	204
Gains, net			
Foreign exchange gains, net	11,914	2,382	6,955
	13,397	2,620	7,159

9. PROFIT/(LOSS) BEFORE TAX

The KCS Taian Group's profit/(loss) before tax is arrived at after charging:

	Notes	2011	2012	2013
		Year ended 31 December		
		RMB'000	*RMB'000*	*RMB'000*
Cost of inventories sold and services provided		44,800	39,776	48,513
Depreciation*	*15*	13,854	13,784	13,880
Amortisation of intangible assets	*16*	1,333	1,333	1,333
Amortisation of prepaid land lease payments	*17*	184	184	184
Auditors' remuneration		230	264	245
Employee benefit expense (excluding directors' remuneration *(note 11)*):				
Wages and salaries		4,312	4,340	4,756
Defined contribution scheme		650	718	828
		4,962	5,058	5,584
Loss on disposed of items of property, plant and equipment**		38	34	20
Impairment of trade receivables**	*20*	—	613	—
Impairment of other receivables**	*21*	—	—	630
Charitable donations**		19	2	—

Notes:

* This item is included in "Cost of sales" in the consolidated statements of profit or loss.

** These items are included in "Other expenses" in the consolidated statements of profit or loss.

10. FINANCE COSTS

An analysis of finance costs is as follows:

		Year ended 31 December		
		2011	2012	2013
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Interests on:				
Loan from the ultimate holding company	*28(i)*	54	86	92
Loan from a related company	*28(i)*	742	641	246
		796	727	338

11. DIRECTORS' REMUNERATION

No director received any fees emoluments in respect of their services rendered to the KCS Taian Group during the Relevant Periods.

12. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the Relevant Periods were as follows:

	Year ended 31 December		
	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*
Salaries, allowances and benefits in kind	629	578	701
Performance related bonuses	45	38	40
Pension scheme contributions	103	94	111
	777	710	852

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	No. of employees Year ended 31 December		
	2011	2012	2013
Nil to RMB100,000	3	2	1
RMB100,001 to RMB200,000	1	2	3
RMB200,001 to RMB300,000	—	1	—
RMB300,001 to RMB400,000	1	—	—
RMB400,001 to RMB500,000	—	—	1
	5	5	5

13. INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made for the Relevant Periods as the KCS Taian Group did not generate any assessable profits arising in Hong Kong during the Relevant Periods. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the country/jurisdictions in which the KCS Taian Group operates based on existing legislation, interpretations and practices in respect thereof.

	Year ended 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Current — elsewhere	1,538	833	772

A reconciliation of the tax expense/(credit) applicable to profit before tax at the statutory rate in which KCS Taian and its subsidiary are domiciled to the tax expense at the effective tax rate is as follows:

	Year ended 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Profit/(loss) before tax	(672)	(7,059)	8,355
Tax calculated at statutory tax rates	(1,079)	(2,791)	1,228
Income not subject to tax	(1,769)	(1,443)	(1,801)
Tax losses for which no deferred tax assets were recognised	1,278	2,518	—
Expenses not deductible for tax	1,570	1,716	979
Utilisation of previously unrecognised tax losses	—	—	(406)
Withholding tax on interest income	1,538	833	772
Tax charge for the year	1,538	833	772

The KCS Taian Group has tax losses arising in Hong Kong of RMB2,026,000, RMB2,535,000 and RMB2,667,000 as at 31 December 2011, 2012 and 2013, respectively, that are available indefinitely for offsetting against future taxable profits of the company in which the losses arose. The KCS Taian Group also has tax losses arising in Mainland China of RMB10,160,000, RMB15,593,000 and RMB11,157,000 as at 31 December 2011, 2012 and 2013, respectively, that will expire in one to five years for offsetting against future taxable profits.

Deferred tax assets have not been recognised in respect of losses in the KCS Taian Group as the directors consider that it is not probable that the KCS Taian Group will have significant future taxable profits against which those losses can be utilised.

14. PROFIT ATTRIBUTABLE TO THE OWNER OF THE PARENT

The consolidated profit attributable to the owner of the parent for the years ended 31 December 2011, 2012 and 2013 included a profit of RMB9,180,000, RMB7,912,000 and RMB10,143,000, respectively, which have been dealt with in the Financial Information of KCS Taian.

15. PROPERTY, PLANT AND EQUIPMENT

The KCS Taian Group

	Land and buildings *RMB'000*	Plant and machinery *RMB'000*	Motor vehicles *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
At 1 January 2011:					
Cost	80,225	152,065	668	—	232,958
Accumulated depreciation	(3,988)	(12,171)	(127)	—	(16,286)
Net carrying amount	76,237	139,894	541	—	216,672
Net carrying amount:					
At 1 January 2011	76,237	139,894	541	—	216,672
Additions	610	2,488	—	913	4,011
Transferred from construction in progress	880	33	—	(913)	—
Depreciation provided during the year	(3,961)	(9,830)	(63)	—	(13,854)
Disposals	(47)	—	—	—	(47)
At 31 December 2011	73,719	132,585	478	—	206,782

	Land and buildings *RMB'000*	Plant and machinery *RMB'000*	Motor vehicles *RMB'000*	Total *RMB'000*
At 31 December 2011 and 1 January 2012:				
Cost	81,668	154,586	668	236,922
Accumulated depreciation	(7,949)	(22,001)	(190)	(30,140)
Net carrying amount	73,719	132,585	478	206,782
Net carrying amount:				
At 1 January 2012	73,719	132,585	478	206,782
Additions	—	439	—	439
Depreciation provided during the year	(3,950)	(9,780)	(54)	(13,784)
Disposals	—	—	(134)	(134)
At 31 December 2012	69,769	123,244	290	193,303
At 31 December 2012 and 1 January 2013:				
Cost	81,668	155,025	534	237,227
Accumulated depreciation	(11,899)	(31,781)	(244)	(43,924)
Net carrying amount	69,769	123,244	290	193,303
Net carrying amount:				
At 1 January 2013	69,769	123,244	290	193,303
Additions	436	568	13	1,017
Depreciation provided during the year	(3,910)	(9,930)	(40)	(13,880)
Disposals	(280)	—	—	(280)
At 31 December 2013	66,015	113,882	263	180,160
At 31 December 2013:				
Cost	81,824	155,593	547	237,964
Accumulated depreciation	(15,809)	(41,711)	(284)	(57,804)
Net carrying amount	66,015	113,882	263	180,160

16. INTANGIBLE ASSETS

The KCS Taian Group

	Intellectual property license *RMB'000*
At 1 January 2011:	
Cost	12,000
Accumulated amortisation	(1,667)
Net carrying amount	10,333
Net carrying amount:	
At 1 January 2011	10,333
Amortisation provided during the year	(1,333)
At 31 December 2011	9,000
At 31 December 2011 and 1 January 2012:	
Cost	12,000
Accumulated amortisation	(3,000)
Net carrying amount	9,000
Net carrying amount:	
At 1 January 2012	9,000
Amortisation provided during the year	(1,333)
At 31 December 2012	7,667
At 31 December 2012 and 1 January 2013:	
Cost	12,000
Accumulated amortisation	(4,333)
Net carrying amount	7,667
Net carrying amount:	
At 1 January 2013	7,667
Amortisation provided during the year	(1,333)
At 31 December 2013	6,334
At 31 December 2013:	
Cost	12,000
Accumulated amortisation	(5,666)
Net carrying amount	6,334

17. PREPAID LAND LEASE PAYMENTS

	The KCS Taian Group		
	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*
Carrying amount at 1 January	8,462	8,278	8,094
Amortised during the year	(184)	(184)	(184)
Carrying amount at 31 December	8,278	8,094	7,910
Current portion included in other receivables *(note 21)*	(184)	(184)	(184)
Non-current portion	8,094	7,910	7,726

18. INVESTMENT IN A SUBSIDIARY

	KCS Taian		
	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*
Unlisted investments, at cost	128,262	128,262	128,262
Due from a subsidiary	138,608	144,638	148,051

The amount due from a subsidiary is unsecured, bears interest at 7% per annum, and is repayable within one year. The carrying amount of the amount due from a subsidiary approximates to its fair value.

Particulars of KCS Taian's subsidiary are as follows:

Name	Place of establishment and business	Nominal value of registered capital	% of equity directly attributable to the KCS Taian	Principal activities
Tai An China Sciences Environment Power Co., Ltd.*	Taian, Shandong, PRC	US$17,350,000	100%	Waste incineration and power generation

* Registered as a wholly-foreign-owned enterprise under the PRC laws

19. INVENTORIES

	The KCS Taian Group		
	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*
Raw materials	3,530	2,498	3,161

20. TRADE RECEIVABLES

	The KCS Taian Group		
	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	11,015	17,042	10,825

The KCS Taian Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of three to six months. The KCS Taian Group seeks to maintain strict control over its outstanding receivables to minimise the credit risk. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

At 31 December 2013, no trade debtors were determined to be impaired. At 31 December, the aged analysis of trade receivables that are neither individually nor collectively considered to be impaired is as follows:

	The KCS Taian Group		
	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*
Within 1 year	10,049	17,042	10,825
1 to 2 years	966	—	—
	11,015	17,042	10,825

Trade receivables that were neither past due nor impaired related to customers for whom there was no recent history of default.

Movements in the provision for impairment of trade receivables are as follows:

	The KCS Taian Group		
	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*
As at 1 January	—	—	—
Provision for impairment	—	613	—
Amount written off as uncollectible	—	(613)	—
As at 31 December	—	—	—

21. PREPAYMENTS AND OTHER RECEIVABLES

		The KCS Taian Group		
		2011	**2012**	**2013**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Prepayments		72	34	115
Prepaid land lease payments	*17*	184	184	184
Other receivables		22,844	20,379	18,076
		23,100	20,597	18,375
Less: Provision for impairment of other receivables		(1,276)	(1,276)	(1,906)
		21,824	19,321	16,469

At 31 December 2011, 2012 and 2013, the impairment of other receivables is a provision for individually impaired other receivables of RMB1,276,000, RMB1,276,000 and RMB1,906,000, respectively, with a carrying amount before provision of RMB1,276,000, RMB1,512,000 and RMB3,032,000, respectively.

The individually impaired other receivables were calculated according to its aging, and only a portion of the receivables is expected to be recovered.

Movements in the provision for impairment of other receivables are as follows:

	The KCS Taian Group		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
As at 1 January	1,276	1,276	1,276
Provision for impairment	—	—	630
As at 31 December	1,276	1,276	1,906

22. CASH AND CASH EQUIVALENTS

	The KCS Taian Group		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Cash and bank balances	6,155	6,031	24,112
Denominated in			
United States Dollar ("USD")	3	4	4
RMB	6,152	6,027	24,108

	KCS Taian		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Cash and bank balances	3	4	4
Denominated in			
USD	3	4	4

Cash at banks earns interest at floating rates based on daily bank deposit rates.

23. TRADE PAYABLES

An aged analysis of the trade payables as at the end of each of the Relevant Periods, based on the invoice date, is as follows:

	The KCS Taian Group		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Within 1 year	2,530	3,199	6,440
1 to 2 years	832	33	55
2 to 3 years	—	12	—
Over 3 years	—	—	8
	3,362	3,244	6,503

All trade payables as at 31 December 2011, 2012 and 2013 were payable to the KCS Taian Group's suppliers, which were unsecured, interest-free and payable on demand.

24. OTHER PAYABLES AND ACCRUALS

	The KCS Taian Group		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Accruals	613	609	655
Other payables	11,304	12,935	12,932
	11,917	13,544	13,587

	KCS Taian		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Other payables	45	44	24

Other payables are non-interest-bearing and repayable on demand.

25. ISSUED CAPITAL

	KCS Taian		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Authorised and issued:			
10,000 ordinary share of HK$1	9	9	9

There were no changes in KCS Taian's authorised and issued share capital during the Relevant Periods.

26. RESERVES

(a) The KCS Taian Group

The amounts of the KCS Taian Group's reserves and the movements therein for the Relevant Periods are presented in the consolidated statements of changes in equity in Section I of this report.

(b) KCS Taian

	Retained earnings
	RMB'000
At 1 January 2011	16,525
Profit and total comprehensive income for the year	9,180
At 31 December 2011	25,705
At 1 January 2012	25,705
Profit and total comprehensive income for the year	7,912
At 31 December 2012	33,617
At 1 January 2013	33,617
Profit and total comprehensive income for the year	10,143
At 31 December 2013	43,760

27. CAPITAL COMMITMENTS

At the end of the reporting period, the KCS Taian Group had no any significant capital commitments.

28. RELATED PARTY TRANSACTIONS

(i) In addition to the transactions detailed elsewhere in these financial information, the KCS Taian Group had the following transactions with related parties during the year:

		The KCS Taian Group		
		2011	**2012**	**2013**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Management fees payable to the ultimate holding company		673	391	200
Consultancy service fee payable to a related company		500	250	400
Interest expenses:				
Payable to the ultimate holding company	*10*	54	86	92
Payable to a related company	*10*	742	641	246

The above transactions were conducted on terms and conditions mutually agreed between the relevant parties.

(ii) Outstanding balances with related companies:

The outstanding balances with related companies at the end of the Relevant Periods are as follows:

		The KCS Taian Group		
		2011	**2012**	**2013**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Due to a related company	*(a)*	13,925	9,560	400
Due to the immediate holding company	*(b)*	239,490	237,120	230,413
Due to the ultimate holding company	*(c)*	1,624	2,114	2,111

		KCS Taian		
		2011	**2012**	**2013**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Due to the immediate holding company	*(b)*	239,490	237,120	230,413
Due to the ultimate holding company	*(c)*	1,624	2,114	2,111

Notes:

(a) The balances are due to KCS Green Energy (Beijing) Consultancy Co. Ltd., a related company under common control of the ultimate holding company. Except for a loan of RMB11,000,000, RMB9,000,000 and Nil as at 31 December 2011, 2012 and 2013, respectively, which is unsecured, and bears a floating interest rate as stipulated by the People's Bank of China, the remaining balance is unsecured and interest-free. All the balances have no fixed terms of repayment.

(b) The balances are due to KCS Green Energy, the immediate holding company of KCS Taian. The balances are unsecured, interest-free and have no fixed terms of repayment.

(c) The balances are due to KNB, the ultimate holding company of KCS Taian. The balances are unsecured, bear interest at 5% per annum, and have no fixed terms of repayment.

(iii) Compensation of key management personnel of the KCS Taian Group:

	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Short term employee benefits	505	442	569
Post-employment benefits	84	72	92
Total compensation paid to key management personnel	589	514	661

Further details of directors' emoluments are included in note 11 to the Financial Information.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The KCS Taian Group's principal financial instruments comprise trade payables, other payables and accruals, and amounts due to a related company, the immediate and the ultimate holding company. The main purpose of these financial instruments is to raise finance for the KCS Taian Group's operations. The KCS Taian Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The carrying amounts of the KCS Taian Group's financial instruments approximated to their fair values as at the end of each of the Relevant Periods as financial instruments included in current assets and current liabilities are with short term maturities and financial instruments included in non-current assets and non-current liabilities are discounted at effective interest rates. Accordingly, no separate disclosure of the fair values of the KCS Taian Group's financial instruments is made in the Financial Information.

The main risks arising from the KCS Taian Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Foreign currency risk

The KCS Taian Group is exposed to foreign currency risk primarily through transactions that are denominated in a currency other than its functional currency. The currencies giving rise to the risk are primarily USD and Hong Kong dollars. For the years ended 31 December 2011, 2012 and 2013, the exposure to transactional currency risk is considered to be minimal.

Credit risk

The KCS Taian Group trades only with state-owned enterprises or government agencies. In addition, receivable balances are monitored on an ongoing basis and the KCS Taian Group's exposure to bad debts is not significant.

The credit risk of the KCS Taian Group's other financial assets, which comprise cash and cash equivalents, other receivables with a maximum exposure equal to the carrying amounts of these instruments.

Further quantitative data in respect of the KCS Taian Group's exposure to credit risk arising from trade receivables are disclosed in note 20 to the Financial Information.

Liquidity risk

The KCS Taian Group aims to maintain sufficient cash and credit lines to meet its liquidity requirement, by obtaining its funding requirements from its ultimate holding company. The amounts due to a related company and immediate holding company are unsecured, interest-free and have no fixed terms of repayment. The amounts due to the ultimate holding company are unsecured and have no fixed terms of repayment, which bear interest at 5% per annum.

The maturity profile of the KCS Taian Group's financial liabilities as at the end of each of the Relevant Periods, based on the contractual undiscounted payments, is as follows:

	The KCS Taian Group		
	2011	**2012**	**2013**
	On demand	**On demand**	**On demand**
	RMB'000	*RMB'000*	*RMB'000*
Trade payables	3,362	3,244	6,503
Other payables and accruals	11,917	13,544	13,587
Due to a related company	13,925	9,560	400
Due to the immediate holding company	239,490	237,120	230,413
Due to the ultimate holding company	1,624	2,114	2,111
	270,318	265,582	253,014

Capital management

The primary objectives of the KCS Taian Group's capital management are to safeguard the KCS Taian Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The KCS Taian Group manages its capital by following the ultimate holding company's policies and guidelines and also seeks approval from the board of directors with regard to all capital management matters. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by KCS Taian or any of the companies now comprising the KCS Taian Group in respect of any period subsequent to 31 December 2013.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

The following is the text of a report received from the reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

EY 安永

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27 March 2014

The Board of Directors
Beijing Development (Hong Kong) Limited

Dear Sirs,

We set out below our report on the financial information of KCS Changde Investments Company Limited ("KCS Changde") and its subsidiary (hereinafter collectively referred to as the "KCS Changde Group") comprising the consolidated statements of profit or loss, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the KCS Changde Group for each of the three years ended 31 December 2011, 2012 and 2013 (the "Relevant Periods"), and the consolidated statements of financial position of the KCS Changde Group and the statements of financial position of KCS Changde as at 31 December 2011, 2012 and 2013, together with the notes thereto (the "Financial Information"), for inclusion in the circular of Beijing Development (Hong Kong) Limited (the "Company") dated 27 March 2014 (the "Circular") in connection with, amongst other matters, the Company's proposed acquisition of the entire issued capital and the shareholder's loans in KCS Changde (the "KCS Changde Acquisition").

KCS Changde was incorporated as a limited liability company on 6 June 2008 in Hong Kong. The principal activity of KCS Changde is investment holding and the principal activities of the KCS Changde Group during the Relevant Periods were waste incineration and power generation in the People's Republic of China (the "PRC").

The statutory financial statements of KCS Changde for the three years ended 31 December 2011, 2012 and 2013 were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and were audited by us.

As at the end of the Relevant Periods, KCS Changde has direct interest in a subsidiary as set out in note 17 of Section II below. All companies now comprising the KCS Changde Group have adopted 31 December as their financial year end date. The statutory financial statements of the subsidiary registered in the PRC for each of the Relevant Periods were prepared in accordance with the accounting principles and financial regulations applicable to PRC entities and audited by Ernst & Young Hua Ming LLP.

For the purpose of this report, the directors of KCS Changde have prepared the consolidated financial statements of the KCS Changde Group (the "Underlying Financial Statements") for the Relevant Periods in accordance with HKFRSs. The Underlying Financial Statements for each of the three years ended 31 December 2011, 2012 and 2013 were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information set out in this report has been prepared from the Underlying Financial Statements with no adjustments made thereon.

DIRECTORS' RESPONSIBILITY

The directors of KCS Changde are responsible for the preparation of the Underlying Financial Statements and the Financial Information that give a true and fair view in accordance with HKFRSs, and for such internal control as the directors of KCS Changde determine is necessary to enable the preparation of the Underlying Financial Statements and the Financial Information that are free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

It is our responsibility to form an independent opinion on the Financial Information and to report our opinion thereon to you.

For the purpose of this report, we have examined the Underlying Financial Statements and have carried out procedures on the Financial Information in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

OPINION IN RESPECT OF THE FINANCIAL INFORMATION

In our opinion, for the purpose of this report, the Financial Information gives a true and fair view of the state of affairs of the KCS Changde Group and of KCS Changde as at 31 December 2011, 2012 and 2013, and of the consolidated results and cash flows of the KCS Changde Group for each of the Relevant Periods.

I. FINANCIAL INFORMATION

Consolidated Statements of Profit or Loss

		Year ended 31 December		
		2011	**2012**	**2013**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	*7*	37,915	35,994	54,746
Cost of sales		(37,915)	(31,153)	(35,127)
Gross profit		—	4,841	19,619
Other income and gains, net	*8*	9,450	2,105	6,105
Administrative expenses		(3,288)	(3,419)	(3,193)
Finance costs	*10*	(98)	(170)	(83)
Profit before tax	*9*	6,064	3,357	22,448
Income tax expense	*13*	—	(1,627)	(860)
PROFIT FOR THE YEAR		6,064	1,730	21,588
PROFIT FOR THE YEAR ATTRIBUTABLE TO THE OWNER OF THE PARENT	*14*	6,064	1,730	21,588

Consolidated Statements of Comprehensive Income

	Year ended 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
PROFIT FOR THE YEAR	6,064	1,730	21,588
Other comprehensive Income for the year	—	—	—
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	6,064	1,730	21,588
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO THE OWNER OF THE PARENT	6,064	1,730	21,588

Consolidated Statements of Financial Position

		As at 31 December		
		2011	2012	2013
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT ASSETS				
Property, plant and equipment	*15*	1,267	1,119	1,633
Intangible assets	*16*	216,173	213,264	211,923
Total non-current assets		217,440	214,383	213,556
CURRENT ASSETS				
Inventories	*18*	496	1,460	271
Trade receivables	*19*	4,334	9,263	21,087
Prepayments and other receivables	*20*	19,441	17,234	12,962
Cash and cash equivalents	*21*	10,694	13,032	16,967
Total current assets		34,965	40,989	51,287
CURRENT LIABILITIES				
Trade payables	*22*	—	3,562	3,653
Other payables and accruals	*23*	18,288	16,840	13,834
Due to a related company	*27(ii)(a)*	2,959	3,697	400
Due to the immediate holding company	*27(ii)(b)*	220,980	218,898	212,984
Due to the ultimate holding company	*27(ii)(c)*	1,340	1,807	1,816
Total current liabilities		243,567	244,804	232,687
NET CURRENT LIABILITIES		(208,602)	(203,815)	(181,400)
Net assets		8,838	10,568	32,156
EQUITY				
Issued capital	*24*	—	—	—
Retained earnings	*25(a)*	8,838	10,568	32,156
Total equity		8,838	10,568	32,156

Consolidated Statements of Changes in Equity

	Attributable to the owner of KCS Changde		
	Issued capital	**Retained earnings**	**Total equity**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2011	—	2,774	2,774
Profit and total comprehensive income for the year	—	6,064	6,064
At 31 December 2011 and 1 January 2012	—	8,838	8,838
Profit and total comprehensive income for the year	—	1,730	1,730
At 31 December 2012 and 1 January 2013	—	10,568	10,568
Profit and total comprehensive income for the year	—	21,588	21,588
At 31 December 2013	—	32,156	32,156

Consolidated Statements of Cash Flows

		Year ended 31 December		
		2011	**2012**	**2013**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		6,064	3,357	22,448
Adjustments for:				
Bank interest income	*8*	—	(19)	(34)
Finance costs	*10*	98	170	83
Depreciation	*9*	152	185	219
Amortisation of intangible assets	*9*	—	7,243	8,811
		6,314	10,936	31,527
Decrease/(increase) in inventories		—	(964)	1,189
Increase in trade receivables		—	(4,929)	(11,824)
Decrease in prepayments and other receivables		—	97	53
Increase in trade payables		—	3,562	91
Increase in other payables and accruals		1,000	420	4,783
Decrease in an amount due to the immediate holding company		(9,450)	(2,082)	(5,914)
Increase in an amount due to the ultimate holding company		622	467	9
Cash generated from/(used in) operations		(1,514)	7,507	19,914
Bank interest received		—	19	34
Net cash flows from/(used in) operating activities		(1,514)	7,526	19,948

		Year ended 31 December		
		2011	2012	2013
	Note	*RMB'000*	*RMB'000*	*RMB'000*
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of items of property, plant and equipment		(674)	(37)	(733)
Purchases of intangible assets		(37,034)	(4,981)	(13,197)
Net cash flows used in investing activities		(37,708)	(5,018)	(13,930)
CASH FLOWS FROM FINANCING ACTIVITIES				
New loan from the immediate holding company		15,885	—	—
Increase/(decrease) in an amount due to a related company		2,000	—	(2,000)
Interest paid		(98)	(170)	(83)
Net cash flows from/(used in) financing activities		17,787	(170)	(2,083)
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS		(21,435)	2,338	3,935
Cash and cash equivalents at beginning of year		32,129	10,694	13,032
CASH AND CASH EQUIVALENTS AT END OF YEAR	*21*	10,694	13,032	16,967

Statements of Financial Position

		As at 31 December		
		2011	**2012**	**2013**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT ASSET				
Investment in a subsidiary	*17*	83,796	83,796	83,796
Total non-current asset		83,796	83,796	83,796
CURRENT ASSETS				
Due from a subsidiary	*17*	140,313	145,363	149,339
Cash and cash equivalents	*21*	1,412	1,397	1,357
Total current assets		141,725	146,760	150,696
CURRENT LIABILITIES				
Other payables	*23*	23	22	3
Due to the immediate holding company	*27(ii)(b)*	210,980	208,898	202,984
Due to the ultimate holding company	*27(ii)(c)*	1,340	1,807	1,816
Total current liabilities		212,343	210,727	204,803
NET CURRENT LIABILITIES		(70,618)	(63,967)	(54,107)
Net assets		13,178	19,829	29,689
EQUITY				
Issued capital	*24*	—	—	—
Retained earnings	*25(b)*	13,178	19,829	29,689
Total equity		13,178	19,829	29,689

II. NOTES TO FINANCIAL INFORMATION

1. CORPORATE INFORMATION

KCS Changde is a limited liability company incorporated in Hong Kong. The registered office of KCS Changde is located at 36/F, Tower Two, Times Square, Matheson Street, Causeway Bay, Hong Kong.

During the Relevant Periods, the principal activity of KCS Changde is investment holding. The principal activities and other particulars of its subsidiary are set out in note 17 below.

In the opinion of the directors, KCS Changde's immediate holding company is KCS Green Energy International (Group) Investments Company Limited ("KCS Green Energy"), a company incorporated and domiciled in Hong Kong, and the ultimate holding company of KCS Changde is Khazanah Nasional Berhad ("KNB"), a company incorporated and domiciled in Malaysia and wholly owned by the Minister of Finance (Incorporated), a body corporate which was incorporated under the Minister of Finance (Incorporation) Act, 1967, of Malaysia.

2.1 STATEMENT OF COMPLIANCE

The Financial Information has been prepared from the Underlying Financial Statements of the KCS Changde Group. The Underlying Financial Statements have been prepared in accordance with HKFRSs (which include all Hong Kong Financial Reporting Standards, HKASs and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. All HKFRSs effective for the accounting period commencing from 1 January 2013, together with the relevant transitional provisions, have been early adopted by the KCS Changde Group in the preparation of the Financial Information throughout the Relevant Periods.

2.2 BASIS OF PREPARATION

The Financial Information has been prepared under the historical cost convention and is presented in Renminbi ("RMB"), which is the functional currency of KCS Changde, and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The Financial Information includes the financial statements of KCS Changde and its subsidiary for the three years ended 31 December 2011, 2012 and 2013. The results of the subsidiary are consolidated from the date of acquisition, being the date on which the KCS Changde Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the KCS Changde Group are eliminated on consolidation in full.

Basis of presentation

The Financial Information set out in this report has been prepared under the going concern concept, notwithstanding that the KCS Changde Group and KCS Changde had net current liabilities of RMB181,400,000 and RMB54,107,000 as at 31 December 2013, respectively, because (i) the ultimate holding company of KCS Changde has confirmed that it intends to provide continual financial support and adequate funds to the KCS Changde Group and KCS Changde to meet their liabilities as and when they fall due until the completion of the KCS Changde Acquisition or for the coming 12 months from the date of this report, whichever is earlier; and (ii) the Company has agreed to provide the same financial support to the KCS

Changde Group and KCS Changde after the completion of the KCS Changde Acquisition. Accordingly, the Financial Information has been prepared on a going concern basis which assumes, among other things, the realisation of assets and satisfaction of liabilities in the normal course of business.

Should the KCS Changde Group and KCS Changde be unable to continue in business as going concerns, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for further liabilities that may arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The Financial Information does not include any adjustments that would result from the failure of the KCS Changde Group and KCS Changde to continue in business as going concerns.

3. ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The KCS Changde Group has not applied the following new and revised HKFRSs that have been issued but are not yet effective in these financial statements.

HKFRS 9	*Financial Instruments*[4]
HKFRS 9, HKFRS 7 and HKAS 39 Amendments	*Hedge Accounting and amendments to HKFRS 9, HKFRS 7 and HKAS 39*[4]
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) — *Investment Entities*[1]
HKAS 19 Amendments	Amendments to HKAS 19 *Employee Benefits — Defined Benefit Plans: Employee Contributions*[2]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities*[1]
HKAS 39 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement — Novation of Derivatives and Continuation of Hedge Accounting*[1]
HK(IFRIC)-Int 21	*Levies*[1]
Annual Improvements 2010-2012 Cycle	Amendments to a number of HKFRSs issued in January 2014[2]
Annual Improvements 2011-2013 Cycle	Amendments to a number of HKFRSs issued in January 2014[2]
HKFRS 14	*Regulatory Deferral Accounts*[3]

1 Effective for annual periods beginning on or after 1 January 2014
2 Effective for annual periods beginning on or after 1 July 2014
3 Effective for annual periods beginning on or after 1 January 2016
4 No mandatory effective date yet determined but is available for adoption

While the adoption of some of the new and revised HKFRSs may result in changes in accounting policies, none of these new and revised HKFRSs is expected to have a significant impact on the KCS Changde Group's results of operations and financial position.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiary

A subsidiary is an entity, directly or indirectly, controlled by KCS Changde. Control is achieved when the KCS Changde Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the KCS Changde Group the current ability to direct the relevant activities of the investee).

The results of the subsidiary are included in KCS Changde's profit or loss to the extent of dividends received and receivable. KCS Changde's investment in a subsidiary is stated at cost less any impairment losses.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the KCS Changde Group, liabilities assumed by the KCS Changde Group to the former owners of the acquiree and the equity interests issued by the KCS Changde Group in exchange for control of the acquiree. For each business combination, the KCS Changde Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the KCS Changde Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of HKAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the KCS Changde Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The KCS Changde Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the KCS Changde Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the KCS Changde Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statements of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired assets.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statements of profit or loss in the period in which it arises (only if there are revalued assets in the financial statements), unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to the KCS Changde Group if:

(a) the party is a person or a close member of that person's family and that person

 (i) has control or joint control over the KCS Changde Group;

 (ii) has significant influence over the KCS Changde Group; or

 (iii) is a member of the key management personnel of the KCS Changde Group or of a parent of the KCS Changde Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the KCS Changde Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the KCS Changde Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the KCS Changde Group or an entity related to the KCS Changde Group; and the sponsoring employers of the post-employment benefit plan;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(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).

Service concession arrangements

Concession arrangements are recognised in accordance with HK(IFRIC)—Int 12 *Service Concession Arrangements*.

HK(IFRIC)—Int 12 is applicable to concession arrangements comprising a public service obligation and satisfying all of the following criteria:

- The concession grantor controls or regulates the services to be provided by the operator using the asset, the infrastructure, the beneficiaries of the services and the prices applied;
- The grantor controls the significant residual interest in the infrastructure at the end of the term of the arrangement.

The accounting for service concession arrangements is as follows:

Consideration given by the grantor

A financial asset (receivable under a service concession arrangement) is recognised to the extent that (a) the KCS Changde Group has an unconditional right to receive cash or another financial asset from or at the direction of the grantor for the construction services rendered and/or the consideration paid and payable by the KCS Changde Group for the right to charge users of the public service; and (b) the grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law. The KCS Changde Group has an unconditional right to receive cash if the grantor contractually guarantees to pay the KCS Changde Group (a) specified or determinable amounts or (b) the shortfall, if any, between amounts received from users of the public service and specified or determinable amounts, even if the payment is contingent on the KCS Changde Group ensuring that the infrastructure meets specified quality of efficiency requirements. The financial asset (receivable under a service concession arrangement) is accounted for in accordance with the policy set out for loans and receivables under "financial instruments" below.

An intangible asset (operating concession) is recognised to the extent that the KCS Changde Group receives a right to charge users of the public service, which is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the service. The intangible asset (operating concession) is accounted for in accordance with the policy set out for "Intangible assets (other than goodwill)" below.

If the KCS Changde Group is paid partly by a financial asset and partly by an intangible asset, in which case, each component of the consideration is accounted for separately and the consideration received or receivable for both components shall be recognised initially at the fair value of the consideration received or receivable.

Construction services

Revenue and costs relating to construction services are accounted for in accordance with the policy set out for "Construction contracts" below.

Operating services

Revenue relating to operating services is accounted for in accordance with the policy for "Revenue recognition" below. Costs for operating services are expensed in the period in which they are incurred.

Contractual obligations to restore the infrastructure to a specified level of serviceability

The KCS Changde Group has contractual obligations which it must fulfil as a condition of its licence, that is (a) to maintain waste-incineration-power-generation plants it operates to a specified level of serviceability and/or (b) to restore the plants to a specified condition before they are handed over to the grantor at the end of the service concession arrangement. These contractual obligations to maintain or restore the waste-incineration-power-generation plants, except for upgrade element, are recognised and measured in accordance with the policy set out for "Provisions" below.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Depreciation is calculated on a straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	4.75%
Plant and machinery	6.33%-23.75%
Furniture and fixtures	19%
Motor vehicles	9.50%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statements of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Patents and licences

Purchased patents and licences are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 25 years or the period of the duration of operation.

Service concession right

The KCS Changde Group entered into a concession agreement with a governmental agency and obtained the right to operate waste-to-energy plant. Service concession is initially stated at fair value of the construction services provided and the service concession construction revenue recorded during the construction stage of the service concession arrangement. Subsequent to initial recognition, the service concession is measured at cost less accumulated amortisation and accumulated impairment losses. Amortisation is provided on the straight-line basis over the estimated useful life of 25 years upon the commencement of the waste-to-energy operations.

Financial instruments

The KCS Changde Group classifies its financial instruments into the following categories at inception, depending on the purpose for which the assets were acquired or the liabilities were incurred.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains, net in the statements of profit or loss. The loss arising from impairment is recognised in the statements of profit or loss in other operating expenses.

Financial liabilities

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The KCS Changde Group's financial liabilities include trade and other payables and amounts due to a related company, the immediate holding company and the ultimate holding company.

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the KCS Changde Group's consolidated statements of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the KCS Changde Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the KCS Changde Group has transferred substantially all the risks and rewards of the asset, or (b) the KCS Changde Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in first-out basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statements of profit or loss.

Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Revenue from cost plus construction contracts is recognised on the percentage of completion method, by reference to the recoverable costs incurred during the period plus the related fee earned, measured by the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Cash and cash equivalents

For the purpose of the consolidated statements of cash flows, cash and cash equivalents comprise cash on hand and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the KCS Changde Group's cash management.

For the purpose of the statements of financial position, cash and bank balances comprise cash on hand and at banks, which are not restricted as to use.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the KCS Changde Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of electricity, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the KCS Changde Group retains neither continuing managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the provision of waste treatment services, revenue is recognised when the service is rendered and it is probable that the economic benefits will flow to the KCS Changde Group;

(c) from construction contracts, on the percentage of completion basis, as further explained in the accounting policy for "Construction contracts" above; and

(d) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Pension schemes

Certain companies within the KCS Changde Group have participated in a number of defined contribution retirement benefit schemes required by the respective local governments in which they operate for their employees. Contributions are made based on a certain percentage of the covered payroll and are held separately from those of the KCS Changde Group in independently administered funds. The KCS Changde Group's employer contributions vest fully with the employees when contributed into the schemes.

Foreign currency

The Financial Information is presented in RMB, which is the KCS Changde Group's functional and presentation currency. Each entity in the KCS Changde Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the KCS Changde Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the KCS Changde Group's Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the KCS Changde Group's accounting policies, management has made the following judgements, apart from those involving estimations which have the most significant effect on the amounts recognised in the Financial Information.

Income taxes

Significant judgements on the future tax treatment of certain transactions are required in determining income tax provisions. The KCS Changde Group carefully evaluates tax implications of transactions and tax provisions are recorded accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation.

Estimation uncertainty

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, are described below.

Impairment of trade and other receivables

The policy for provision for impairment of trade and other receivables of the KCS Changde Group is based on the evaluation of collectability and the ageing analysis of accounts and on management's estimation. A considerable amount of estimation is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor. If the financial conditions of debtors are to deteriorate resulting in an impairment of their ability to make payments, additional allowances may be required.

Services concession arrangement

The KCS Changde Group entered into a build-operate-transfer ("BOT") arrangement in respect of one of its waste-to-energy plant with a local government. The KCS Changde Group concluded that such BOT arrangement is a service concession arrangement under HK(IFRIC)—Int 12 *Service Concession Arrangements*, because the local government controls and regulates the services that the KCS Changde Group must provide with the infrastructure at a pre-determined service charge. Upon expiry of the BOT arrangement, the infrastructure has to be transferred to the local government at nil consideration.

The KCS Changde Group recognises the right to operate the infrastructure (as the consideration received or receivable in exchange for the construction service provided) as an intangible asset in accordance with the BOT arrangement entered into with the local government, as there are no future guaranteed receipts over its service concession period.

Recognition of revenue from the BOT project construction and the related intangible asset requires the management of the KCS Changde Group to make a number of estimates, which include, inter alia, the fair value of the construction services, the total outcome of the construction services, as well as the work done to date. These estimates are determined by the management of the KCS Changde Group based on their experience and assessment of current and future market conditions. Changes in these estimates could impact the amounts of construction revenue and costs recognised in profit or loss in the period in which the changes are made and in subsequent periods.

In addition, service concession right is reviewed for impairment when events or circumstances indicate that the carrying amount may not be recoverable. In estimating the recoverable amount, various assumptions, including future cash flows to be associated with the service concession right and discount rates, are made. If future events do not correspond to such assumptions, the recoverable amount will need to be revised, and this may have an impact on the KCS Changde Group's results of operation or financial position.

6. SEGMENT INFORMATION

From the perspective of KCS Changde's directors, it is considered that the KCS Changde Group's operation is focused on the group as a whole, and all revenue and operating results of the KCS Changde Group are derived from the waste-to-energy services (including both waste incineration and power generation) from the PRC.

The non-current assets of the KCS Changde Group are all located in the PRC.

During the Relevant Periods, more than 10% of the total revenue was derived from a single customer as follows:

	Year ended 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Customer A	—	23,919	41,570

7. REVENUE

Revenue, which is also the KCS Changde Group's turnover, represents the net sales of electricity and income from waste treatment and the rendering of construction services. The revenue is analysed as follows:

	Year ended 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Sale of electricity	—	23,919	41,570
Waste treatment	—	6,552	13,176
Rendering of construction services	37,915	5,523	—
	37,915	35,994	54,746

8. OTHER INCOME AND GAINS, NET

	Year ended 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Other income			
Bank interest income	—	19	34
Gains, net			
Foreign exchange gains, net	9,450	2,086	6,071
	9,450	2,105	6,105

9. PROFIT BEFORE TAX

The KCS Changde Group's profit before tax is arrived at after charging:

		Year ended 31 December		
		2011	**2012**	**2013**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Cost of inventories sold and services provided		37,915	31,153	35,127
Depreciation*	*15*	152	185	219
Amortisation of intangible assets	*16*	—	7,243	8,811
Auditors' remuneration		235	281	283
Employee benefit expense (excluding directors' remuneration *(note 11)*):				
Wages and salaries		359	3,456	4,604
Defined contribution scheme		28	1,611	1,166
		387	5,067	5,770

* This item is included in "cost of sales" in the consolidated statements of profit or loss.

10. FINANCE COSTS

An analysis of finance costs is as follows:

	Notes	**2011** *RMB'000*	**2012** *RMB'000*	**2013** *RMB'000*
Interest on:				
Loan from the ultimate holding company	*27(i)*	39	71	73
Loan from a related company	*27(i)*	59	99	10
		98	170	83

11. DIRECTORS' REMUNERATION

No directors received any fees emoluments in respect of their services rendered to the KCS Changde Group during the Relevant Periods.

12. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the Relevant Periods were as follows:

	Year ended 31 December		
	2011 *RMB'000*	**2012** *RMB'000*	**2013** *RMB'000*
Salaries, allowances and benefits in kind	648	505	586
Performance related bonuses	39	34	35
Defined contribution scheme	115	120	152
	802	659	773

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	No. of employees Year ended 31 December		
	2011	**2012**	**2013**
Nil to RMB100,000	3	2	3
RMB100,001 to RMB200,000	—	3	1
RMB200,001 to RMB300,000	1	—	—
RMB300,001 to RMB400,000	1	—	1
	5	5	5

13. INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made for the Relevant Periods as the KCS Changde Group did not generate any assessable profits arising in Hong Kong during the Relevant Periods. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the country/jurisdictions in which the KCS Changde Group operates based on existing legislation, interpretations and practices in respect thereof.

The subsidiary of KCS Changde incorporated in Mainland China is subject to a corporate income tax rate of 25% on its taxable profit. However, in accordance with the relevant tax laws in the PRC, the subsidiary is exempted from corporate income tax for the first three years since the fiscal year, when it started to generate waste treatment revenue, and is entitled to a 50% tax reduction for the succeeding three years.

	Year ended 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Current — elsewhere	—	1,627	860

A reconciliation of the tax expense applicable to profit before tax at the statutory rate in which KCS Changde and its subsidiary are domiciled to the tax expense at the effective tax rate is as follows:

	Year ended 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Profit before tax	6,064	3,357	22,448
Tax calculated at statutory tax rates	849	155	4,708
Lower tax rate enacted by local authority	—	(444)	(4,141)
Income not subject to tax	(1,495)	(1,366)	(1,769)
Tax losses for which no deferred tax assets were recognised	646	—	—
Expenses not deductible for tax	—	1,655	1,202
Withholding tax on interest income	—	1,627	860
Tax charge for the year	—	1,627	860

The KCS Changde Group has tax losses arising in Hong Kong of RMB1,659,000, RMB2,169,000 and RMB2,286,000 as at 31 December 2011, 2012 and 2013 that are available indefinitely for offsetting against future taxable profits of the company in which the losses arose. The KCS Changde Group also has tax losses arising in Mainland China of Nil, RMB3,473,000 and Nil as at 31 December 2011, 2012 and 2013, respectively, that will expire in one to five years for offsetting against future taxable profits.

Deferred tax assets have not been recognised in respect of the losses in the KCS Changde Group as the directors consider that it is not probable that the KCS Changde Group will have significant future taxable profits against which those losses can be utilised.

14. PROFIT ATTRIBUTABLE TO THE OWNER OF THE PARENT

The consolidated profit attributable to the owner of the parent for the years ended 31 December 2011, 2012 and 2013 included a profit of RMB9,062,000, RMB6,651,000 and RMB9,860,000, respectively, which has been dealt with in the Financial Information of KCS Changde.

15. PROPERTY, PLANT AND EQUIPMENT

The KCS Changde Group

	Buildings *RMB'000*	Plant and machinery *RMB'000*	Furniture and fixtures *RMB'000*	Motor vehicles *RMB'000*	Total *RMB'000*
At 1 January 2011:					
Cost	324	116	28	503	971
Accumulated depreciation	(45)	(57)	(13)	(107)	(222)
Net carrying amount	279	59	15	396	749
Net carrying amount:					
At 1 January 2011	279	59	15	396	749
Additions	—	674	—	—	674
Depreciation provided during the year	(15)	(89)	(5)	(43)	(152)
Disposals	—	(4)	—	—	(4)
At 31 December 2011	264	640	10	353	1,267
At 31 December 2011 and 1 January 2012:					
Cost	324	786	28	503	1,641
Accumulated depreciation	(60)	(146)	(18)	(150)	(374)
Net carrying amount	264	640	10	353	1,267
Net carrying amount:					
At 1 January 2012	264	640	10	353	1,267
Additions	—	37	—	—	37
Depreciation provided during the year	(15)	(124)	(3)	(43)	(185)
At 31 December 2012	249	553	7	310	1,119
At 31 December 2012 and 1 January 2013:					
Cost	324	823	28	503	1,678
Accumulated depreciation	(75)	(270)	(21)	(193)	(559)
Net carrying amount	249	553	7	310	1,119
Net carrying amount:					
At 1 January 2013	249	553	7	310	1,119
Additions	—	733	—	—	733
Depreciation provided during the year	(15)	(158)	(2)	(44)	(219)
At 31 December 2013	234	1,128	5	266	1,633
At 31 December 2013:					
Cost	324	1,556	28	503	2,411
Accumulated depreciation	(90)	(428)	(23)	(237)	(778)
Net carrying amount	234	1,128	5	266	1,633

16. INTANGIBLE ASSETS

The KCS Changde Group

	Intellectual property licence *RMB'000*	Service concession right *RMB'000*	Total *RMB'000*
At 1 January 2011:			
Cost	10,000	168,258	178,258
Accumulated amortisation	—	—	—
Net carrying amount	10,000	168,258	178,258
Net carrying amount:			
At 1 January 2011	10,000	168,258	178,258
Additions	—	37,915	37,915
At 31 December 2011	10,000	206,173	216,173
At 31 December 2011 and 1 January 2012:			
Cost	10,000	206,173	216,173
Accumulated amortisation	—	—	—
Net carrying amount	10,000	206,173	216,173
Net carrying amount:			
At 1 January 2012	10,000	206,173	216,173
Additions	—	4,334	4,334
Amortisation provided during the year	(333)	(6,910)	(7,243)
At 31 December 2012	9,667	203,597	213,264
At 31 December 2012 and 1 January 2013:			
Cost	10,000	210,507	220,507
Accumulated amortisation	(333)	(6,910)	(7,243)
Net carrying amount	9,667	203,597	213,264
Net carrying amount:			
At 1 January 2013	9,667	203,597	213,264
Additions	—	7,470	7,470
Amortisation provided during the year	(400)	(8,411)	(8,811)
At 31 December 2013	9,267	202,656	211,923
At 31 December 2013:			
Cost	10,000	217,977	227,977
Accumulated amortisation	(733)	(15,321)	(16,054)
Net carrying amount	9,267	202,656	211,923

17. INVESTMENT IN A SUBSIDIARY

	KCS Changde		
	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*
Unlisted investments, at cost	83,796	83,796	83,796
Due from a subsidiary	140,313	145,363	149,339

The amount due from a subsidiary is unsecured, bears interest at 7% per annum, and is repayable within one year. The carrying amount of the amount due from a subsidiary approximates to its fair value.

Particulars of KCS Changde's subsidiary are as follows:

Name	Place of establishment and business	Nominal value of registered capital	% of equity directly attributable to KCS Changde	Principal activities
Changde Zhonglian Environmental Electricity Co., Ltd.*	Changde, Hunan, PRC	RMB83,780,000	100%	Waste incineration and power generation

* Registered as a wholly-foreign-owned enterprise under PRC laws

18. INVENTORIES

	The KCS Changde Group		
	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*
Raw materials	496	1,460	271

19. TRADE RECEIVABLES

	The KCS Changde Group		
	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	4,334	9,263	21,087

The KCS Changde Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of three to six months. The KCS Changde Group seeks to maintain strict control over its outstanding receivables to minimise the credit risk. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

At 31 December 2013, no trade debtors were determined to be impaired. At 31 December, the aged analysis of trade receivables that are neither individually nor collectively considered to be impaired is as follows:

	The KCS Changde Group		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Within 1 year	4,334	9,263	21,087

Trade receivables that were neither past due nor impaired related to customers for whom there was no recent history of default.

20. PREPAYMENTS AND OTHER RECEIVABLES

	The KCS Changde Group		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Prepayments	21	20	20
Other receivables	19,420	17,214	12,942
	19,441	17,234	12,962

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

21. CASH AND CASH EQUIVALENTS

	The KCS Changde Group		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Cash and bank balances	10,694	13,032	16,967
Denominated in			
United States Doller ("USD")	5,300	1,524	1,481
RMB	5,394	11,508	15,486

	KCS Changde		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Cash and bank balances	1,412	1,397	1,357
Denominated in			
USD	1,412	1,397	1,357

Cash at banks earns interest at floating rates based on daily bank deposit rates.

22. TRADE PAYABLES

An aged analysis of the trade payables as at the end of each of the Relevant Periods, based on the invoice date, is as follows:

	The KCS Changde Group		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Within 1 year	—	3,562	3,653

All trade payables as at 31 December 2013 were payable to the KCS Changde Group's suppliers, which were unsecured, interest-free and payable on demand.

23. OTHER PAYABLES AND ACCRUALS

	The KCS Changde Group		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Accruals	239	267	370
Other payables	18,049	16,573	13,464
	18,288	16,840	13,834

	KCS Changde		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Other payables	23	22	3

Other payables are non-interest-bearing and repayable on demand.

24. ISSUED CAPITAL

	KCS Changde		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Authorised and issued:			
1 ordinary share of HK$1	—	—	—

There were no changes in KCS Changde's authorised and issued share capital during the Relevant Periods.

25. RESERVES

(a) The KCS Changde Group

The amounts of the KCS Changde Group's reserves and the movements therein for the Relevant Periods are presented in the consolidated statements of changes in equity in Section I of this report.

(b) KCS Changde

	Retained earnings *RMB'000*
At 1 January 2011	4,116
Profit and total comprehensive income for the year	9,062
At 31 December 2011 and at 1 January 2012	13,178
Profit and total comprehensive income for the year	6,651
At 31 December 2012 and at 1 January 2013	19,829
Profit and total comprehensive income for the year	9,860
At 31 December 2013	29,689

26. CAPITAL COMMITMENTS

	The KCS Changde Group		
	2011 *RMB'000*	**2012** *RMB'000*	**2013** *RMB'000*
Contracted, but not provided for waste incineration power generation project	8,260	—	—

27. RELATED PARTY TRANSACTIONS

(i) In addition to the transactions detailed elsewhere in the Financial Information, the KCS Changde Group had the following transactions with related parties during the year:

		The KCS Changde Group		
		2011	**2012**	**2013**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Management fees payable to the ultimate holding company		682	392	112
Loan from the immediate holding company		15,885	—	—
Loan from a related company		2,000	—	—
Consultancy service fee payable to a related company		500	250	400
Interest expenses:				
Payable to the ultimate holding company	*10*	39	71	73
Payable to a related company	*10*	59	99	10

The above transactions were conducted on terms and conditions mutually agreed between the relevant parties.

(ii) Outstanding balances with related companies:

The outstanding balances with related companies at the end of each of the Relevant Periods are as follows:

		The KCS Changde Group		
		2011	**2012**	**2013**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Due to a related company	*(a)*	2,959	3,697	400
Due to the immediate holding company	*(b)*	220,980	218,898	212,984
Due to the ultimate holding company	*(c)*	1,340	1,807	1,816

		KCS Changde		
		2011	**2012**	**2013**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Due to the immediate holding company	*(b)*	210,980	208,898	202,984
Due to the ultimate holding company	*(c)*	1,340	1,807	1,816

Notes:

(a) The balances are due to KCS Green Energy (Beijing) Consultancy Co., Ltd., a related company under common control of the ultimate holding company. Except for a loan of RMB2,000,000, RMB2,000,000 and Nil as at 31 December 2011, 2012 and 2013, respectively, which is unsecured, and bears a floating interest rate as stipulated by the People's Bank of China, the remaining balance is unsecured and interest-free. All the balances have no fixed terms of repayment.

(b) The balances are due to KCS Green Energy, the immediate holding company of KCS Changde. The balances are unsecured, interest-free and have no fixed terms of repayment.

(c) The balances are due to Khazanah Nasional Berhad, the ultimate holding company of KCS Changde. The balances are unsecured, bear interest at 5% per annum, and have no fixed terms of repayment.

(iii) Compensation of key management personnel of the KCS Changde Group:

	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Short term employee benefits	616	474	621
Post-employment benefits	95	100	152
Total compensation paid to key management personnel	711	574	773

Further details of directors' emoluments are included in note 11 to the Financial Information.

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The KCS Changde Group's principal financial instruments, comprise trade payables, other payables and accruals, and amounts due to a related company, the immediate and the ultimate holding company. The main purpose of these financial instruments is to raise finance for the KCS Changde Group's operations. The KCS Changde Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The carrying amounts of the KCS Changde Group's financial instruments approximated to their fair values as at the end of each of the Relevant Periods as financial instruments included in current assets and current liabilities are with short term maturities and financial instruments included in non-current assets and non-current liabilities are discounted at effective interest rates. Accordingly, no separate disclosure of the fair values of the KCS Changde Group's financial instruments is made in the Financial Information.

The main risks arising from the KCS Changde Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Foreign currency risk

The KCS Changde Group is exposed to foreign currency risk primarily through transactions that are denominated in a currency other than its functional currency. The currencies giving rise to the risk are primarily USD and Hong Kong dollars. For the years ended 31 December 2011, 2012 and 2013, the exposure to transactional currency risk is considered to be minimal.

Credit risk

The KCS Changde Group trades only with state-owned enterprises or government agencies. In addition, receivable balances are monitored on an ongoing basis and the KCS Changde Group's exposure to bad debts is not significant.

The credit risk of the KCS Changde Group's other financial assets, which comprise cash and cash equivalents, other receivables with a maximum exposure equal to the carrying amounts of these instruments.

Further quantitative data in respect of the KCS Changde Group's exposure to credit risk arising from trade receivables are disclosed in note 19 to the Financial Information.

Liquidity risk

The KCS Changde Group aims to maintain sufficient cash and credit lines to meet its liquidity requirement, by obtaining its funding requirements from its ultimate holding company. The amounts due to a related company and immediate holding company are unsecured, interest-free and have no fixed terms of repayment. The amounts due to the ultimate holding company are unsecured and have no fixed terms of repayment, which bear interest at 5% per annum.

The maturity profile of the KCS Changde Group's financial liabilities as at the end of each of the Relevant Periods, based on the contractual undiscounted payments, is as follows:

	The KCS Changde Group		
	2011	**2012**	**2013**
	On demand	**On demand**	**On demand**
	RMB'000	*RMB'000*	*RMB'000*
Trade payables	—	3,562	3,653
Other payables and accruals	18,288	16,840	13,834
Due to a related company	2,959	3,697	400
Due to the immediate holding company	220,980	218,898	212,984
Due to the ultimate holding company	1,340	1,807	1,816
	243,567	244,804	232,687

Capital management

The primary objectives of the KCS Changde Group's capital management are to safeguard the KCS Changde Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The KCS Changde Group manages its capital by following the ultimate holding company's policies and guidelines and also seeks approval from the board of directors with regard to all capital management matters. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by KCS Changde or any of the companies now comprising the KCS Changde Group in respect of any period subsequent to 31 December 2013.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

I. MANAGEMENT DISCUSSION AND ANALYSIS ON THE GROUP

(a) For the six months ended 30 June 2013

BUSINESS REVIEW AND PROSPECTS

In order to enhance the shareholders' return and turnaround the operating situation over the past years, the Company has commenced strategic transformation to restructure its existing business portfolio, enter into the environmental protection and solid waste treatment industry, specialise in the waste-to-energy industry, and build itself into an industry leader through investment, merger and acquisition of waste-to-energy projects. Commencing from the year of 2012, the Company has entered into negotiations with several proposed investments in waste-to-energy projects, namely the Proposed Green Energy Project, the Proposed Haidian Project and the Proposed Shanxi Project as detailed in the section headed "Use of Proceeds" in the "Letter from the Board" of the Company's circular dated 21 December 2012.

At the beginning of 2013, the Company successfully completed its first phase of capital enlargement. Our parent company, BEHL, made cash injection of HK$500 million into the Company, and at the same time, made available to the Company the right to issue additional standby convertible bonds of HK$3 billion, if needed. This provided ample cash reserve for the Company's strategic investments. The Company has also disposed of its interests in Beijing Enterprises Culture and Sport Co., Ltd.（北京北控文化體育有限公司）("**BG Culture**") and recorded a gain of HK$1.54 million.

During the six months ended 30 June 2013, in order to improve the operating results and enhance the competitive edge, the Group had continuously explored new business lines, new profit models and new market resources with its existing information technology business. In the system integration sector, the Group secured the successful implementation of its existing rail transportation projects, namely the Automated Fare Collection System Phase II for Line 8 and the Passenger Information System Phase II for Line 10. The new outsourcing services have been operating smoothly, and the 12333 Hotline Calling Centre of Beijing Municipal Human Resources and Social Security Bureau had commenced operation officially. Besides, the Group had preliminarily constructed a supply platform for spare parts in response to the huge operating demands for the mechanical and electrical system of the subway, which will become another spotlight to the system integration business. In the information technology services sector, the Group had been continuing to focus in providing stable network operation, software development, education smart card operation and data operation services for the education sector in Beijing.

Endowed with the strengths of growth prospects, government policy support, sustainable return, and the steady and strong cash flow, the waste-to-energy industry will be able to effectively enhance the operating and financial results of the Group in the long run. As at 30 June 2013, the Company intended to continue to identify potential waste-to-energy projects, consistently adhere to the development strategy focused on economic benefits with scrupulous and conscientious selection of projects, and to strive for rapid development under the prerequisite of ensuring reasonable rate of return.

FINANCIAL REVIEW

Revenue

Provision of information technology related services in the PRC is a single reportable operating segment of the Group. The Group's revenue generated from the provision of information technology related services in the six months ended 30 June 2013 was HK$76,943,000, increased by 51.1% as compared with HK$50,933,000 in the first half of 2012. The growth was mainly driven by the increase in hardware sales contracts completed during the period.

Cost of sales

The Group's cost of sales in the six months ended 30 June 2013 was HK$71,363,000, increased by 65.2% as compared with HK$43,192,000 in the six months ended 30 June 2012.

Gross profit

The Group recorded a gross profit of HK$5,580,000 in the six months ended 30 June 2013, decreased by 27.9% as compared with HK$7,741,000 in the six months ended 30 June 2012. The overall gross profit margin reduced from 15.2% to 7.3%, which was mainly due to (i) the increase in proportion of hardware sales contracts with lower margin and (ii) the increase in software development cost.

Other income and gains

The Group's other income and gains in the six months ended 30 June 2013 amounted to HK$9,210,000 (six months ended 30 June 2012: HK$14,596,000), which was mainly comprised the bank interest income of HK$6,631,000 and the gain on disposal of its 59.5% equity interest in BG Culture of HK$1,535,000. A gain on deemed partial disposal of interests in an associate of HK$5,857,000 was also included in the six months ended 30 June 2012.

Selling and distribution expenses

The Group's selling and distribution expenses in the six months ended 30 June 2013 decreased by 3.0% to HK$3,597,000, as compared with HK$3,708,000 in the six months ended 30 June 2012.

Administrative expenses

The Group's administrative expenses in the six months ended 30 June 2013 increased by 0.7% to HK$31,459,000, as compared with HK$31,244,000 in the six months ended 30 June 2012.

Other expenses, net

The Group's other expenses in the six months ended 30 June 2013 amounted to HK$23,000 (six months ended 30 June 2012: HK$499,000).

Finance costs

The Group's finance costs in the six months ended 30 June 2013 wholly represented the interest and imputed interest on convertible bonds issued on 28 February 2013 of HK$1,013,000 and HK$2,029,000, respectively; whilst the Group's finance costs in the six months ended 30 June 2012 wholly represented the imputed interest on interest-free trade payables with extended credit periods of HK$3,257,000.

Share of profits and losses of a jointly-controlled entity

The Group's share of results of a jointly-controlled entity in the six months ended 30 June 2013 represented its 50% share of net loss of Beijing Education Information Network Services Center Co., Ltd. of HK$7,264,000 (six months ended 30 June 2012: HK$7,433,000).

Share of profits and losses of associates

The Group's share of results of associates in the six months ended 30 June 2013 substantially represented its 21.1% share of net profit (including an exceptional gain on disposal of its subsidiary) of China Information Technology Development Limited ("**CITD**", stock code: 8178) of HK$3,706,000 (six months ended 30 June 2012: loss of HK$4,234,000).

Loss for the period

The Group's loss for the six months ended 30 June 2013 was HK$26,872,000, decreased by HK$1,195,000 or 4.3% as compared with the loss of HK$28,067,000 in the six months ended 30 June 2012. The loss attributable to shareholders of the Company was HK$18,642,000, decreased by HK$2,198,000 or 10.5% as compared with the loss of HK$20,840,000 in the six months ended 30 June 2012.

FINANCIAL POSITION

At the extraordinary general meeting of the Company held on 11 January 2013, the entering into by the Company of the conditional subscription agreement dated 15 September 2011 (as amended by the supplemental agreements in relation thereto) with the Subscriber, as subscriber, and BEHL, as guarantor, was approved, ratified and confirmed by the shareholders of the Company. On 11 January 2013, the authorised share capital of the Company was increased from HK$1 billion to HK$5 billion by the creation of an additional 4 billion ordinary shares of HK$1 each. On 28 February 2013, 177 million new ordinary shares of HK$1 each were issued at a price of HK$1.13 per share and convertible bonds of an aggregate principal of HK$300.58 million and an initial conversion price of HK$1.13 per share were issued to the Subscriber. The aggregate gross proceeds (before expenses) from the new ordinary shares issued and the convertible bonds were HK$500.59 million. Subject to the satisfaction of certain pre-conditions by the Company, the Company shall have the right to notify the Subscriber and require the Subscriber to subscribe such amount of standby convertible bonds of an aggregate principal amount of HK$3 billion as the Company may, from time to time, consider appropriate.

On 6 February 2013, the Group's investment in 59.5% equity interest in BG Culture was disposed to its substantial shareholder at a cash consideration of HK$8.5 million. Saved as disclosed above, the Group had made no material investment, acquisition and disposal of subsidiaries and associated companies during the six months ended 30 June 2013.

As at 30 June 2013, the Group had total assets and total liabilities of HK$1,395.44 million and HK$470.70 million, respectively, increased by HK$429.91 million and HK$220.35 million, respectively, as compared with 31 December 2012. The net assets of the Group increased by HK$209.56 million from HK$715.18 million to HK$924.74 million, of which equity attributable to shareholders of the Company amounted to HK$921.28 million as at 30 June 2013.

The Group adopts a prudent approach in cash and financial management to ensure proper risk control and low costs of funds. It finances its daily operations of the existing business primarily with internally generated cash flow and loan facilities from banks. When the Company comes across with acquisition or investment opportunities, the Company will first utilise the internal funding and arrange for project finance loan facilities from banks.

Depending on the investment need, the Company may also consider raising fund from the Shareholders and will comply with the Listing rules as may be required.

As at 30 June 2013, the cash and bank balances held by the Group amounted to HK$1,131.45 million, of which HK$4.23 million were pledged as tender deposits to secure certain system integration contracts of the Group. The Group has no further charge on its assets as at 30 June 2013. On 28 February 2013, the Company issued convertible bonds of an aggregate principal of HK$300.58 million and an initial conversion price of HK$1.13 per share to its holding company. The convertible bonds bear interest at 1% per annum and maturity of five years. Save as the convertible bonds, the Group did not have any bank borrowings, nor did it hold any financial derivatives. As at 30 June 2013, the Group had a net current assets of HK$1,074.69 million and its current ratio was increased from 4.22 times to 6.74 times and total liabilities to assets ratio was increased from 25.9% to 33.7%.

The Group's cash and bank balances were denominated as to 67% in Hong Kong dollars and 33% in Renminbi. The Group's businesses are principally located in the PRC and the majority of its transactions are conducted in Renminbi. As the financial statements of the Group are presented in Hong Kong dollars, which is the Group's functional and presentation currency, the Group will be subject to translational foreign exchange risk. All differences arising on settlement or translation of monetary items are taken to the income statement and the gains or losses arising on retranslation of foreign operations are recognised in the exchange fluctuation reserve. During the six months ended 30 June 2013, the Group did not enter into any foreign currencies hedging arrangements.

During the six months ended 30 June 2013, the Group had capital expenditures of HK$1.06 million. As at 30 June 2013, save as the potential investment in the environmental protection business, the Group had capital commitment of HK$8.1 million for acquiring a property. The Group did not have any material contingent liabilities.

EMPLOYEES

As at 30 June 2013, the Group had approximately 270 employees, comparing with approximately 330 employees as at 31 December 2012. The Group's total expenses on employee benefits for the six months ended 30 June 2013 amounted to HK$23.07 million, decreased by 3.1% as compared with HK$23.81 million in the corresponding period of last year. The Group encourages and finances its employees to attend training courses in the fields of their job responsibilities. The Group's employee remuneration policy and package are periodically reviewed by the management based on the employees' work performance, professional experiences and prevailing market practices. Discretionary bonuses and share options are awarded to certain employees according to the assessment of individual performance.

The Company has operated a share option scheme for the Group's employees and directors. No share option was granted, exercised, forfeited or lapsed during the six months ended 30 June 2013. As at 30 June 2013, the Company had 51,420,000 share options outstanding, which were granted on 21 June 2011 at an exercise price of HK$1.25 per share and represented approximately 6.0% of the Company's ordinary shares in issue as at 30 June 2013.

(b) For the year ended 31 December 2012

BUSINESS REVIEW AND PROSPECTS

In 2012, the Group was engaged in two principal business areas — system integration and information technology services.

In 2012, the Group had fully completed the safety door project for Line 9 and automated fare collection system phase II for Line 8 of Beijing Subway. Due to the decline in the profit margins of the system integration projects and the volume of successful bids in Beijing rail transportation sector, the Group strived to redevelop its intelligent building construction business, explore the new outsourcing services and establish the rail transportation spare parts selling agent platform. In 2012, the Group contracted for the construction and maintenance of 12333 Hotline Calling Centre of Beijing Municipal Human Resources and Social Security Bureau.

In respect of other information technology services, the Group continuously focused on Beijing education sector and responsible for the construction and maintenance of Beijing education information network, e-schools and teacher/student smart cards. In 2012, the Group also participated into the automatic welfare lottery ticket point-of-sale terminal market in Beijing.

The Group decided to restructure its current business portfolio and make a strategic business transformation into the environmental protection and solid waste treatment industry.

Firstly, the Company entered into a framework agreement for the investment and cooperation in Shanxi domestic waste-to-energy projects on 30 May 2012, whereby the Group would have 33% equity interest in the proposed strategic cooperation partnership.

Secondly, the Company entered into a framework agreement for the proposed acquisition of 100% equity interest in Green Energy Holding Company Limited in Hangzhou on 17 September 2012. The total consideration payable for the proposed acquisition was preliminary estimated to be ranged from US$530 million to US$535 million and would be settled by issuing consideration shares and/or convertible bonds of the Company.

As at the date of the annual report of the Company for 2012, concrete investment and cooperation arrangements for the above framework agreements were subject to further negotiations, due diligence and definitive agreements to be entered into by the relevant parties.

Thirdly, the Group entered into an increase of capital contract in relation to the proposed formation of an equity joint venture for investing, constructing and operating the Beijing Haidian District Cyclic Economy Industrial Park Renewable Energy Power Generation Project on 28 June 2012. Pursuant to the contract, the Group will (i) inject RMB256 million and a maximum amount of RMB27.55 million to the joint venture as an additional registered capital and equity premium of the joint venture, respectively; and (ii) make available shareholder's loans of an aggregate amount of RMB644 million to the joint venture. As at the date of the annual report of the Company for 2012, these transactions were subject to, inter alia, approvals from the Stock Exchange and the Shareholders and were not yet completed.

For further details of the above proposed waste-to-energy projects, please refer to the section headed "Use of Proceeds" in the "Letter from the Board" of the Company's circular dated 21 December 2012. In addition, the Company was in the process of identifying other potential waste-to-energy projects and exploring new investment opportunities.

FINANCIAL REVIEW

Revenue

Provision of information technology related services in the PRC is a single reportable operating segment of the Group. The Group's revenue in 2012 was HK$208.39 million, increased by 12.5% as compared with HK$185.18 million in 2011. This was mainly driven by the increase in revenue from system integration contracts of HK$33.68 million recognised during the year.

Cost of sales

The Group's cost of sales in 2012 was HK$187.86 million, increased by 18.2% as compared with HK$158.99 million in 2011.

Gross profit

The Group achieved a gross profit of HK$20.53 million in 2012, dropped by 21.6% as compared with HK$26.20 million in 2011. The overall gross profit margin reduced from 14.1% to 9.9%. The decrease was mainly due to the increase in proportion of system integration contracts which contributed lower profit margins.

Other income and gains

The Group's other income and gains in 2012 amounted to HK$31.99 million, mainly comprised of bank interest income of HK$11.59 million, imputed interest on interest-free trade receivables with extended credit periods of HK$5.15 million and gains on deemed partial disposals of interests in an associate, CITD, of HK$9.59 million.

Selling and distribution expenses

The Group's selling and distribution expenses in 2012 decreased by 38.6% to HK$5.92 million, as compared with HK$9.64 million in 2011.

Administrative expenses

The Group's administrative expenses in 2012 increased by 5.8% to HK$65.17 million, as compared with HK$61.57 million (excluding the equity-settled share option expense of HK$27.88 million) in 2011.

Other expenses, net

The Group's other expenses in 2012 amounted to HK$1.15 million, mainly comprised of impairment of trade and other receivables of HK$1.05 million in aggregate.

Finance costs

The Group's finance costs in 2012, which wholly represented the imputed interest on interest-free trade payables with extended credit periods, increased by 10.3% to HK$4.51 million.

Share of profits and losses of jointly-controlled entities

The Group's share of profits and losses of jointly-controlled entities in 2012 wholly represented its 50% share of net profit of Beijing Education Information Network Services Center Co., Ltd. of HK$0.68 million (2011: HK$0.11 million).

Share of profits and losses of associates

The Group's share of profits and losses of associates of HK$2.96 million in 2012 (2011: HK$0.52 million) substantially represented its share of net loss of CITD.

Income tax

The Group's income tax in 2012 amounted to HK$0.14 million.

Profit/(loss) for the year

The loss in 2012 was HK$26.65 million, as compared with the profit of HK$48.94 million in 2011. Taking out the effect of exceptional one-off items including (i) gain (net of tax) on disposal of a jointly-controlled entity, Beijing Municipal Administration & Communication Cards Co., Ltd. ("**BMAC**"), of HK$115.45 million, (ii) equity-settled share option expense of HK$27.88 million and (iii) impairment of goodwill of HK$10 million in 2011, the loss in 2012 reduced by HK$1.98 million as compared with the adjusted operating loss of HK$28.63 million in 2011.

The loss attributable to shareholders of the Company was HK$18.83 million, as compared with the profit of HK$54.85 million in 2011.

FINANCIAL POSITION

During the year ended 31 December 2012, there was no movement in the capital structure of the Company. As at 31 December 2012, the Group had total assets and total liabilities of HK$965.53 million and HK$250.35 million, respectively, decreased by HK$75.94 million and HK$52.98 million, respectively, as compared with 31 December 2011. The net assets of the Group decreased by HK$22.96 million from HK$738.14 million to HK$715.18 million, of which equity attributable to shareholders of the Company amounted to HK$699.80 million as at 31 December 2012.

The Group adopts a prudent approach in cash and financial management to ensure proper risk control and low costs of funds. It finances its daily operations of the existing business primarily with internally generated cash flow and loan facilities from banks. When the Company comes across with acquisition or investment opportunities, the Company will first utilise the internal funding and arrange for project finance loan facilities from banks.

Depending on the investment need, the Company may also consider raising fund from the Shareholders and will comply with the Listing rules as may be required.

As at 31 December 2012, the cash and bank balances held by the Group amounted to HK$652.83 million, of which HK$5.78 million were pledged as tender deposits to secure certain system integration contracts of the Group. The Group has no further charge on its assets as at 31 December 2012. The Group did not have any bank borrowings, nor did it hold any financial derivatives. As at 31 December 2012, the Group had a net current assets of HK$630.04 million and its current ratio was increased from 3.86 times to 4.22 times and total liabilities to assets ratio was reduced from 29.1% to 25.9%.

The Group's cash and bank balances were denominated as to 32% in Hong Kong dollars and 68% in Renminbi. The Group's businesses are principally located in the PRC and the majority of its transactions are conducted in Renminbi. As the financial statements of the Group are presented in Hong Kong dollars, which is the Group's functional and presentation currency, the Group will be subject to translational foreign exchange risk. All differences arising on settlement or translation of monetary items are taken to the income statement and the gains or losses arising on retranslation of foreign operations are recognised in the exchange fluctuation reserve. In 2012, the Group did not enter into any foreign currencies hedging arrangements.

During the year ended 31 December 2012, the Group had capital expenditures of HK$39.16 million. As at 31 December 2012, save as the potential investment in the environmental protection business, the Group had capital commitment of HK$35.61 million for property, equipment and intangible assets. The Group did not have any material contingent liabilities.

On 6 February 2013, the Group's investment in 59.5% equity interest in BG Culture was disposed to its substantial shareholder at a cash consideration of HK$8.5 million.

Subsequent to the end of 2012, the entering into by the Company of the conditional subscription agreement dated 15 September 2011 (as amended by the supplemental agreements in relation thereto) with the Subscriber and BEHL, as guarantor, was approved, ratified and confirmed by the shareholders at the extraordinary general meeting of the Company held on 11 January 2013. On 11 January 2013, the authorised share capital of the Company was increased from HK$1 billion to HK$5 billion by the creation of an additional 4 billion ordinary shares of HK$1 each. On 28 February 2013, 177 million new ordinary shares of HK$1 each were issued at a price of HK$1.13 per share and convertible bonds of an aggregate principal of HK$300.58 million and an initial conversion price of HK$1.13 per share were issued to the Subscriber. The aggregate gross proceeds (before expenses) from the new ordinary shares issued and the convertible bonds were HK$500.59 million. Subject to the satisfaction of certain pre-conditions by the Company, the Company shall have the right to notify the Subscriber and require the Subscriber to subscribe such amount of standby convertible bonds of an aggregate principal amount of HK$3 billion as the Company may, from time to time, consider appropriate.

Saved as disclosed above, the Group had made no material investment, acquisition and disposal of subsidiaries and associated companies during the year ended 31 December 2012.

EMPLOYEES

As at 31 December 2012, the Group had approximately 330 employees. There was no material fluctuation in the number of employees over the year. The Group's total expenses on employee benefits in 2012 amounted to HK$45.79 million, increased by 4.1% as compared with HK$43.98 million (excluding share option expense) in 2011. The Group encourages and finances its employees to attend training courses in the fields of their job responsibilities. The Group's employee remuneration policy and package are periodically reviewed by the management based on the employees' work performance, professional experiences and prevailing market practices. Discretionary bonuses and share options are awarded to certain employees according to the assessment of individual performance.

The Company has operated a share option scheme for the Group's employees and directors. No share option was granted, exercised, forfeited or lapsed during the year ended 31 December 2012. As at 31 December 2012, the Company had 51,420,000 share options outstanding, which were granted on 21 June 2011 at an exercise price of HK$1.25 per share and represented 7.6% of the Company's ordinary shares in issue at that date.

(c) For the year ended 31 December 2011

BUSINESS REVIEW AND PROSPECTS

BMAC had previously been the focal development project of the Group. However, as it failed to generate profit contribution to the Group over the years, whilst its outlook was beyond reliable prediction, it was resolved at the Company's general meeting held in May 2011 that the entire 43% equity interest in BMAC would be disposed of at a cash consideration of RMB96.38 million, generating a one-off net gain after tax of HK$115.45 million, which has brought along the turnaround in the profits of the Group.

During 2011, the Group's principle business continued to develop around the core of system integration and IT service.

- System integration segment: under intensive industry competition and suppression by "price-cut" bids and increasing material and salary costs, the business continued to shrink with a lowering gross profit margin. At the request of the clients, the Group had successfully, in phase, completed ahead of schedule of the two major livelihood projects of safety door project for Line 9 and the automated fare collection system phase II for Line 8, which has assured the Group's sound reputation in the core business sector. In respect of non-rail transportation sector, the Group has adhered to tapping new sources and cutting expenses and secured several intellectualisation works and services projects in government departments, banks and enterprises in Beijing Municipal and the peripheral areas during the year.

- IT service segment: targeting at the informatisation construction of the Beijing Municipal government and the industry, to provide to the governments and related industries with (1) technical support services for network operating services, access services and network application systems; (2) software development around the four principal businesses of Beijing Municipal Commission of Education, Education District, Beijing Education Examinations Authority and Beijing Open University; (3) government data operating services cored on teacher and student smart card business and content management interoperability services (CMIS) systems.

Over the years, the Group has established solid customer relationship in the government sector including rail transportation and education in Beijing Municipal. Against the backdrop of intensive competition and narrowing gross profit margin, as at 31 December 2011, the Group intended to enhance its competitiveness, closely trace the trend of industry construction, and leverage on the effective channel resources with Beijing Municipal government and other partners to strive for cross-region and multi-sector development, with the objectives of maximising the rate of successful bids and optimising the profit margin of the system integration and IT services projects.

FINANCIAL REVIEW

Revenue

Provision of information technology related services in the PRC is a single reportable operating segment of the Group. The Group's revenue in 2011 was HK$185.18 million, dropped 12.5% as compared with HK$211.64 million in 2010. This was mainly due to increase in the competition in system integration contracts.

Cost of sales

The Group's cost of sales in 2011 was HK$158.99 million, dropped 10.0% as compared with HK$176.75 million in 2010.

Gross profit

The Group achieved a gross profit of HK$26.20 million in 2011, dropped 24.9% as compared with HK$34.89 million in 2010.

Gain on disposal of a jointly-controlled entity

The gain on disposal of a jointly-controlled entity represented the gain on disposal (before tax expenses) of BMAC during the year.

Other income, net

The Group's other income in 2011 amounted to HK$26.23 million, mainly comprised of the imputed interest on interest-free trade receivables with extended credit periods of HK$14.68 million and bank interest income of HK$7.04 million.

Selling and distribution costs

The Group's selling and distribution costs in 2011 increased by 3.4% to HK$9.64 million.

Administrative expenses

Excluding the share option expense of HK$27.88 million, the Group's administrative expenses increased by 5.6% to HK$61.57 million as compared with HK$58.33 million in 2010.

Other expenses, net

The Group's other expenses in 2011 amounted to HK$13.36 million, mainly comprised of impairment of goodwill of HK$10 million.

Finance costs

The Group's finance costs in 2011 decreased by 34.3% to HK$4.09 million, which wholly represented the imputed interest on interest-free trade payables with extended credit periods.

Share of profits and losses of jointly-controlled entities and associates

In 2011, the Group's share of net profits of jointly-controlled entities reduced to HK$0.11 million from HK$1.56 million in 2010 whilst the Group's share of net losses of associates reduced to HK$0.52 million from HK$8.25 million in 2010.

Income tax

The Group's income tax in 2011 mainly comprised of withholding tax of HK$6.59 million in relation to the disposal of BMAC and deferred tax expenses of HK$1.76 million.

Profit for the year

Based on the foregoing, the profit for the year ended 31 December 2011 was HK$48.94 million, as compared with the loss of HK$27.76 million in 2010. The profit attributable to shareholders of the Company was HK$54.85 million, as compared with the loss of HK$23.46 million in 2010.

FINANCIAL POSITION

During the year under review, there was no change in the capital structure of the Company. As at the end of 2011, the Group had total assets and total liabilities of HK$1,041.47 million and HK$303.33 million, respectively, increased by HK$116.08 million and HK$22.11 million as compared with the end of 2010; respectively. The net assets of the Group increased by HK$93.97 million from HK$644.17 million to HK$738.14 million, of which equity attributable to shareholders of the Company amounted to HK$719.29 million as at the end of 2011.

The Group adopts a prudent approach in cash and financial management to ensure proper risk control and low costs of funds. It finances its daily operations of the existing business primarily with internally generated cash flow and loan facilities from banks. When the Company comes across with acquisition or investment opportunities, the Company will first utilise the internal funding and arrange for project finance loan facilities from banks.

Depending on its investment needs, the Company may also consider raising fund from the Shareholders and will comply with the applicable requirements under the Listing Rules as may be required.

As at 31 December 2011, the cash and bank balances held by the Group amounted to HK$717.04 million, which were denominated as to approximately 28% in Hong Kong dollars and 71% in Renminbi. Except for certain bank deposits of HK$1.17 million which was pledged as tender deposits to secure certain system integration contracts of the Group, the Group has no charge on its assets as at 31 December 2011. The Group did not have any bank borrowings, nor did it hold any financial derivatives. As at the end of 2011, the Group had a net working capital of HK$693.79 million and its current ratio and the total liabilities to assets ratio were maintained at 3.86 times and 29.1%, respectively. The Group has sufficient cash resources to finance its current operations.

The Group's businesses are principally located in the PRC and the majority of its transactions are conducted in Renminbi. As the financial statements of the Group are presented in Hong Kong dollars, which is the Group's functional and presentation currency, the Group will be subject to translational foreign exchange risk. All differences arising on settlement or translation of monetary items are taken to the income statement and the gains or losses arising on retranslation of foreign operations are recognised in the exchange fluctuation reserve. In 2011, the Group did not enter into any foreign currencies hedging arrangements.

During the year under review, the Group had capital expenditures of HK$2.87 million. As at 31 December 2011, the Group had capital commitment of HK$65.39 million for authorised and contracted purchases of a property, equipments and intangible assets. The Group did not have any material contingent liabilities.

Saved as disclosed in the above, the Group had made no material investment, material acquisition, and disposal of subsidiaries and associated companies during the year ended 31 December 2011.

EMPLOYEES

At the end of 2011, the Group had approximately 330 employees. The Group's employee remuneration policy and package are periodically reviewed by the management based on the employees' work performance, professional experiences and prevailing market practices. Discretionary bonuses and share options are awarded to certain employees according to the assessment of individual performance. The Group encourages and finances its employees to attend training courses in the fields of their job responsibilities. The Group's total expenses on employee benefits in 2011 amounted to HK$71.86 million, which included share option expense of HK$27.88 million, comparing to employee benefits of HK$39.83 million in 2010.

The Company has operated a share option scheme for the Group's employees and directors. During the year ended 31 December 2011, 51,420,000 share options were granted, 900,000 share options were forfeited and 60,340,000 share options were lapsed. As at 31 December 2011, the Company had 51,420,000 share options outstanding, which were granted on 21 June 2011 at an exercise price of HK$1.25 per share and represented 7.6% of the Company's ordinary shares in issue at that date.

(d) For the year ended 31 December 2010

BUSINESS REVIEW AND PROSPECTS

I. Electronic Payment and Settlement Business

As of the end of 2010, 35.5 million Smart Cards were issued and in circulation by BMAC. With the expansion of the rail transportation network in Beijing, BMAC maintained a steady growth in the core business of the public transportation system, accounting for 90% and 75% of the total passenger traffic volume on public buses and subways respectively. In 2010, 5.145 billion transactions were made with consumption amount of RMB4.253 billion, representing a year-on-year increase of 4.4% and 13.7% respectively. The commercial use of the smart card in the non-transportation areas was also on a steady increase with over 50 new merchants, 500 new stores and 1,000 new POS terminals in 2010, and 30 million transactions were made with consumption amount of RMB233 million, representing a year-on-year increase of 60% and 26% respectively.

However, the service charges for public transportation settlements, being the primary income stream of the smart card system, have not been determined. BMAC received government subsidy of RMB120 million during the year, decreased by RMB10 million as compared with that in 2009. No profit was contributed to the Group by BMAC despite a break-even is achieved during 2010.

II. System Integration Business

With regard to the rail transportation sector in Beijing, in addition to the completion of after-sales service within the maintenance period for the existing projects (i.e. the safety doors for Line 10 and Line 4), Beijing Enterprises Teletron Information Technology Co., Ltd. ("**BETIT**") completed the installation and testing of safety doors for the Daxing Line during the year under review. It is a pilot project of domestic safety doors and commenced the trial operation at the end of 2010. The Automated Fare Collection system phase II for Line 8 and the safety door project for Line 9 are also under design and planning. A number of intellectualisation projects in the non-rail transportation sector in Beijing and the neighbouring regions were completed during the year to gradually extend business scope of the Group.

With the effective cost control measures, BETIT successfully made a turnaround from material loss in the previous year, and the operating results broke even during the year 2010.

III. IT Related Services on Education Business

The scope of the business covers (1) network system: members of the Group have ISP and ICP licences to provide internet access services to education commissions, over 1,600 primary and secondary schools, 27 colleges and universities, organisations directly under their supervision in various districts and counties in Beijing, and management, operation and maintenance services to Beijing Municipal Education Commission for the Beijing Education Information Network, whose number of IP addresses rank top ten in the PRC; (2) data maintenance: the Group started the CMIS 4.0 project, completed the comprehensive examination and enrolment service projects of different education levels in Beijing as well as the issuance, data maintenance and management of over 1.3 million student cards of primary and secondary schools in Beijing; and (3) product research and development: research and development of various education management systems and platforms for Beijing Municipal Education Commission and Chaoyang District Education Commission to actively promote digitalised campus and develop Chinese characters hand-writing learning system.

IV. Others

The business of CITD, being a strategic investment of the Group, resumed its growth. The loss significantly decreased by 53% to HK$26.53 million in 2010, and the book value of investment in the Group amounted to HK$18.39 million as at the end of 2010. CITD continued its commitment to improve its internal control and accounting reporting system, and has applied to the Stock Exchange for the resumption of the trading of its shares, and pending for the reply from the Stock Exchange.

As at 31 December 2010, notwithstanding coordination with different sectors over the years, BMAC had not reached an agreement on charges of settlement services with public buses and subway operators, and could not achieve a steady income from its principal businesses. As it was uncertain whether a fixed financial subsidy mechanism could be established and the specific rules of relevant policies and regulations in relation to non-financial institutes providing payment services were unclear, the prospect of profitability of BMAC could not be reliably forecasted. Nevertheless, the electronic payment and settlement business was the core business in urban information-based construction. It would bring return from investment to BMAC if it could secure a long-term stable source of revenue.

BETIT passed the 2010 review and maintained its "System Integration Grade One" licence. In view of the intensifying market competition, BETIT intended to enhance its enterprise value by fully capitalising on its experience in the intellectualisation projects and rail transportation sector, actively expanding the market, as well as research and development of proprietary intellectual property rights of domestic safety doors.

As at 31 December 2010, backed by the established resources in the IT related services on educational sector, the Group was hallmarked by successful cases in network system, data maintenance and product research and development, which was considered a new highlight for the Group's profitability in the future.

FINANCIAL REVIEW

Revenue

Provision of information technology related services in the PRC is a single reportable operating segment of the Group. The Group's revenue in 2010 was HK$211.64 million, dropped by 6.1% as compared with HK$225.38 million in 2009. This was mainly caused by the decrease in the volume of large-scale IT construction contracts as a result of keen competition in public tendering.

Cost of sales

The Group's cost of sales in 2010 was HK$176.75 million, dropped by 23.2% as compared with HK$230.01 million in 2009.

Gross profit/(loss)

Under rigorous cost control mechanism, the Group achieved a gross profit of HK$34.89 million in 2010, comparing with the gross loss of HK$4.63 million in 2009.

Other income and gain, net

The Group's other income and gain in 2010 amounted to HK$13.44 million, mainly comprised of bank interest income of HK$6.15 million, consultancy income of HK$3.26 million, subsidy income of HK$2.04 million and the imputed interest on interest-free trade receivables with extended credit periods of HK$1.45 million.

Selling and distribution costs

The Group's selling and distribution costs in 2010 increased by 19.2% to HK$9.33 million.

Administrative expenses

The Group's administrative expenses in 2010 decreased by 8.7% to HK$58.33 million.

Other expenses, net

The Group's other expenses in 2010 amounted to a net income of HK$6.06 million, mainly comprised of the reversal of impairment of trade receivables of HK$6.69 million during the year.

Finance costs

The Group's finance costs of HK$6.22 million wholly represented the imputed interest on interest-free trade payables with extended credit periods in 2010.

Share of profits and losses of jointly-controlled entities and associates

The Group's return on investments of jointly-controlled entities and associates has been improved as compared with last year. In 2010, the Group's share of net profits of jointly-controlled entities increased to HK$1.56 million and the Group's share of net losses of associates reduced to HK$8.25 million.

Income tax

The Group's income tax comprised current tax charge of HK$0.13 million and deferred tax expenses of HK$1.46 million in 2010.

Loss for the year

Based on the foregoing, the loss for the year was HK$27.76 million, decreased by HK$149.09 million or 84.3% as compared with the loss of HK$176.85 million in 2009. The loss attributable to shareholders of the Company was HK$23.46 million, decreased by HK$134.96 million or 85.2% as compared with the loss of HK$158.42 million in 2009.

FINANCIAL POSITION

In 2010, there was no change in the capital structure of the Company. As at the end of 2010, the Group had total assets and total liabilities of HK$925.39 million and HK$281.22 million, respectively, decreased by HK$7.77 million and HK$2.07 million, respectively, as compared with the end of 2009. The net assets of the Group decreased by HK$5.7 million from HK$649.87 million to HK$644.17 million, of which equity attributable to shareholders of the Company amounted to HK$619.23 million as at the end of 2010.

As at 31 December 2010, the cash and bank balances held by the Group amounted to HK$619.71 million, which were denominated as to approximately 36% in Hong Kong dollars and 64% in Renminbi. The Group did not have any bank borrowings, charge on its assets, nor did it hold any financial derivatives. As at the end of 2010, the Group had a strong net working capital of HK$558.05 million and its current ratio and the total liabilities to assets ratio remained steady at 3.42 times and 30.4%, respectively. The Group has sufficient cash resources to finance its operations and capital expenditures in the foreseeable future.

The Group's businesses are principally located in the PRC and the majority of its transactions are conducted in Renminbi. As the financial statements of the Group are presented in Hong Kong dollars, which is the Group's functional and presentation currency, the Group will be subject to translational foreign exchange risk. All differences arising on settlement or translation of monetary items are taken to the income statement and the gains or losses arising on retranslation of foreign operations are recognised in the exchange fluctuation reserve. No foreign currencies hedge arrangement has been entered into by the Group.

In 2010, the Group had capital expenditures of HK$3.92 million. As at 31 December 2010, the Group had capital commitment of HK$35.29 million for authorised and contracted purchases of equipments and intangible assets. The Group did not have any material contingent liabilities.

The Group had made no material acquisition and disposal of subsidiaries and associated companies during the year ended 31 December 2010.

EMPLOYEES

At the end of 2010, the Group had approximately 310 employees. The Group's employee remuneration policy and package are periodically reviewed by the management based on the employees' work performance, professional experiences and prevailing market practices. Discretionary bonuses and share options are awarded to certain employees according to the assessment of individual performance. The Group encourages and finances its employees to attend training courses in the fields of their job responsibilities. The Group's total expenses on employee benefits in 2010 amounted to HK$33.28 million, comparing to HK$34.57 million in 2009.

The Company has operated a share option scheme for the Group's employees and directors. During the year ended 31 December 2010, no share option was granted and 7,300,000 share options were forfeited. As at 31 December 2010, the Company had 61,240,000 outstanding share options, which were granted in 2007 and 2008 at a weighted average exercise price of HK$3.74 per share and represented 9% of the Company's ordinary shares in issue at that date.

II. MANAGEMENT DISCUSSION AND ANALYSIS ON THE TARGET GROUP

Set out below is the management discussion and analysis on the Target Group for the three years ended 31 December 2011, 2012 and 2013, which shall be read in conjunction with the accountants reports on each of the KCS Taian Group and the KCS Changde Group as set out in Appendices IIA and IIB to this circular, respectively.

(a) Management discussion and analysis on the KCS Taian Group

BUSINESS OVERVIEW

Shandong Taian

Jointly invested by China Sciences Energy Investments (Group) Limited (中科能源投資(集團)有限公司), Beijing China Sciences General Energy & Environment Co., Ltd. (北京中科通用能源環保有限責任公司) and China North Industrial Equipment Co., Ltd. (中國北方工業裝備有限公司), Tai An China Sciences Environment Power Company Limited (泰安中科環保電力有限公司) (hereinafter referred to as "**Shandong Taian**") was incorporated in Taian, the PRC on 14 October 2005. On 19 November 2008, KCS Taian acquired the shares held by the other two shareholders, and became the sole shareholder of Shandong Taian. The aforesaid equity transfer was approved by Taian Administration for Industry and Commerce. The registered capital of Shandong Taian was formerly US$12 million. On 3 November 2010, KCS Taian, the immediate parent company, increased its capital contribution to Shandong Taian by US$5.35 million. The registration number of Business License for Enterprise Legal Person is 370900400001924, and the term of operation is for 30 years.

The scope of business of Shandong Taian is mainly the comprehensive utilisation of urban household waste incineration treatment (power generation, steam production). Shandong Taian commenced operation in October 2009. The parent company of Shandong Taian is KCS Taian (established in Hong Kong), which is ultimately owned as to 80% by Khazanah Nasional Berhad (established in Malaysia).

Shandong Taian has a land with site area of 101 Mu, located to the south of Taian-Feicheng Highway in Daolang Town in the western part of Taian. The site is 12 kilometres from the city centre with an urban population of 700,000 and 800 metres from the nearest Chiziya Village. The construction scale of investment of Shandong Taian's daily waste treatment capacity is 1,000 tonnes/day, and the actual treatment scale is 750 tonnes/day. Its production equipment includes waste incinerators comprise of two 500 tonnes/day circulating fluidized bed waste incinerators, and steam turbine-generator units comprising of one 12MW and one 6MW condensing steam turbine-generator units.

In the relevant periods, Shandong Taian has signed various production contracts for waste treatment, including: (1) On 29 July 2008, Taian City Construction State-owned Assets Management Co., Ltd.(泰安市城建國有資產經營有限公司), Shandong Taian and Taian City Environmental Health Management Office(泰安市環境衛生管理處), Taian City High-tech Zone Land and Construction Bureau(泰安市高新區國土建設局), Daiyue District Environmental Sanitation Bureau(岱岳區環衛局)) signed the "Household Waste Supply and Settlement Agreement"(《生活垃圾供應與結算協議》), which provides that Taian High-tech Zone Land and Construction Bureau shall organise the collection, transportation, calculation and verification of waste, and Shandong Taian shall be responsible for the incineration treatment of waste. (2) In 2012, Feicheng City Environmental Health Management Office(肥城市環境衛生管理處) and Shandong Taian signed the "Agreement on Entrusted Treatment of Household Waste in Streets and Towns in Feicheng City, Shandong"(《山東省肥城市街鎮生活垃圾委託處理協議書》), which provides that the household waste of ten streets and towns in Feicheng shall be transported to Shandong Taian for incineration treatment.

In the relevant periods, Shandong Taian has signed various production contracts for power operation, including: (1) On 22 February 2009, Tai'an Electric Power Company (泰安供電公司) and Shandong Taian signed the "1*12MW+1*6MW Condensing Turbine Grid Connection Agreement" (《1*12MW+1*6MW抽凝機組併網協議》), which provides that: All power generated by Shandong Taian (except electricity for plant use) shall be sold on the provincial grid. Shandong Taian shall not supply electricity to other electric power supply areas. Settlement shall be made in accordance with settlement agreement. Power generation shall not exceed planned capacity. (2) On 7 May 2009, Tai'an Electric Power Company of Shandong Electric Power Group Corp. (山東電力集團公司泰安供電公司) and Shandong Taian signed the "Grid Connection and Dispatch Agreement" (《併網調度協議》). (3) In 2011, Taian Electric Power Company and Shandong Taian signed the "Power Sales and Purchase Contract" (《購售電合同》), which provides for the purchase of power generated by Shandong Taian, with the tariff to be settled monthly.

Save as set out above, as at 31 December 2011, 2012 and 2013, the KCS Taian Group did not have any concrete future plans in place with regard to any material investments or capital assets; or any concrete plans to introduce any new business, products or services.

FINANCIAL OVERVIEW

Waste-incineration power generation in Shandong Province, PRC was the single operating segment of the KCS Taian Group. In 2012 and 2013, it had generated electricity of 45.64 million kWh and 60.85 million kWh, respectively and had treated solid waste of 193,000 tonnes and 307,000 tonnes, respectively.

Revenue

KCS Taian Group recorded total revenue of RMB37.49 million, RMB38.01 million and RMB57.01 million in 2011, 2012 and 2013, respectively. The revenues were mainly generated from sale of electricity waste treatment and sale of steam. An analysis of the revenue is summarized as follows:

	2011 *RMB'000*	**% to total revenue**	**2012** *RMB'000*	**% to total revenue**	**2013** *RMB'000*	**% to total revenue**
Sale of electricity	23,945	63.86	24,825	65.32	33,842	59.36
Waste treatment	12,056	32.15	11,427	30.07	21,181	37.15
Sale of steam	1,493	3.99	1,754	4.61	1,988	3.49
	37,494	100.00	38,006	100.00	57,011	100.00

The total revenue has increased by 1.37% in 2012 and 50.01% in 2013. The increase in 2013 was mainly due to an increase in both the electricity generated and the amount of solid waste treated and an increase in the average waste treatment fee.

Cost of sales

The cost of sales amounted to RMB44.80 million, RMB39.78 million and RMB48.51 million in 2011, 2012 and 2013, respectively. In 2012, cost of sales has decreased by 11.21% as the operation was improved with more efficient operation of the existing equipment and better cost control. In 2013, cost of sales has increased by 21.97% due to an increase in both the amount of waste treated to 307,000 tonnes (increased by 114,000 tonnes or 59%) and electricity generated to 60.85 million kWh (increased by 15.21 million kWh or 33%). The cost of sales increased at a lower rate with amount of waste treated and electricity generated because of the improved operation efficiency and cost control.

Gross profit/(loss)

The gross loss in 2011 and 2012 was RMB7.31 million and RMB1.77 million, respectively. KCS Taian Group achieved a gross profit of RMB8.50 million in 2013.

Other income and gains, net

Other income and gains, net of RMB13.40 million, RMB2.62 million and RMB7.16 million in 2011, 2012 and 2013, respectively were mainly the foreign exchange gain from the shareholder's loans denominated in US dollar.

Administrative expenses

The administrative expenses were maintained at RMB6.31 million in 2013 (2011: RMB5.91 million and 2012: RMB6.53 million). The increase in administrative expenses of 10.5% in 2012 was mainly due to the accrual of property tax upon completion of construction.

Finance cost

Finance cost of RMB0.80 million, RMB0.73 million and RMB0.34 million in 2011, 2012 and 2013, respectively were mainly interest on the loan from the ultimate holding company and the loan from a related company. The loan from ultimate holding company as at 31 December 2011, 2012 and 2013 were RMB1.62 million, RMB2.11 million and RMB2.11 million, respectively, and the loans borne an interest of 5% per annum. The loan from a related company as at 31 December 2011, 2012 and 2013 were RMB11.00 million, RMB9.00 million and nil, respectively, and the loans borne a floating interest as stipulated by the People's Bank of China in corresponding years.

Profit/(loss) for the year

The net loss for the year of 2011 and 2012 was RMB2.21 million and RMB7.89 million, respectively and the net profit for the year of 2013 was RMB7.58 million. The improving operating results during the periods were mainly due to the increasing volume of electricity generated with the increase of the volume of wasted supplied.

Financial position

As at 31 December 2013, the non-current assets of the KCS Taian Group amounted to RMB194.22 million, which was mainly represented by the plant and machinery, intellectual property license and the land of the power plant. The inventories were mainly the coal which was used during the combustion process and maintained at RMB2.5 million to RMB3.5 million during the periods under review. The turnover period of the trade receivables were approximately 107 days, 163 days and 69 days in 2011, 2012 and 2013, respectively. The turnover period of the trade payables were 27 days, 30 days and 49 days in 2011, 2012 and 2013, respectively.

Liquidity and financial resources

As at 31 December 2013, the total assets of the KCS Taian Group amounted to RMB248.79 million, maintained at similar level as compared with the total assets as at 31 December 2012 and 2011 (2011: RMB266.40 million and 2012: RMB253.77 million). The KCS Taian Group had a net deficit of RMB3.92 million, RMB11.81 million and RMB4.23 million as at 31 December 2011, 2012 and 2013, respectively. As at 31 December 2013, the major borrowings were the shareholder's loans of approximately RMB230.32 million. KCS Taian Group did not have any bank borrowings and had no charge on its assets. The cash and cash equivalents of the KCS Taian Group was RMB6.16 million, RMB6.03 million and RMB24.11 million as at 31 December 2011, 2012 and 2013, respectively and were mainly denominated in RMB. As at the end of 2013, its current ratio remained steady at 21.57% (2011: 15.73% and 2012: 16.90%) and the total liabilities to assets ratio remained steady at 101.70% (2011: 101.47% and 2012: 104.65%).

There were net cash outflow of RMB0.22 million and RMB0.12 million in 2011 and 2012, respectively, and there was a net cash inflow of RMB18.08 million in 2013. The net operating cash inflows were RMB6.76 million, RMB5.07 million and RMB28.60 million in 2011, 2012 and 2013, respectively. The improving cash inflows from operating activities were mainly due to the increase in amount of waste treated and the electricity generated with the increased treatment fee and on-grid tariff during the periods.

During the periods under review, there were payment of RMB5.19 million, RMB0.44 million and RMB1.02 million in 2011, 2012 and 2013, respectively, which were mainly the payment for the construction of the power plant. In 2011, 2012 and 2013, there were settlement of due to a related party and interest expenses of RMB1.80 million, RMB5.26 million and RMB9.77 million, respectively.

In 2011, 2012 and 2013, there was no change in the capital structure of the KCS Taian Group and the KCS Taian Group made no investment, material acquisition and disposal of subsidiaries and associated companies. The business of the KCS Taian Group was principally located in the PRC and the majority of its transactions were conducted in Renminbi. In 2011, 2012 and 2013, the KCS Taian Group did not have any material contingent liabilities nor any significant foreign exchange rate risk. In 2011, 2012 and 2013, the KCS Taian Group did not hold any financial derivatives as hedge arrangement. KCS Taian Group has no material capital commitments as at 31 December 2011, 2012 and 2013.

During the construction period of the waste incineration-power generation plant, the construction cost was funded by the KCS Taian Group with shareholder's loans. Upon completion of the plants and the commencement of the commercial operation, the daily operation of the plants would be funded by the income from waste treatment and sale of electricity. Any excess funding, after taking into account of working capital needs of the plants, would be utilized to repay shareholder's loans and then investment by the investors gradually.

EMPLOYEES

As at 31 December 2013, the KCS Taian Group had 99 employees and the remuneration policy and package (including social security benefits) were formulated in accordance with the applicable labour regulations in Shandong Province and were periodically reviewed by the management based on the employees' work performance, professional experience and prevailing market standards. In 2013, the total employee benefit expense of KCS Taian Group amounted to RMB5.58 million (2011: RMB4.96 million and 2012: RMB5.06 million).

(b) Management discussion and analysis on the KCS Changde Group

BUSINESS OVERVIEW

Hunan Changde

Jointly invested by Dongguan Kunyuan Investment Co., Ltd.(東莞坤元投資有限公司)and Sun Xiaojun(孫小軍), Changde Zhonglian Environmental Electricity Co., Ltd.(常德中聯環保電力有限公司) (hereinafter referred to as "**Hunan Changde**") was incorporated in Changde on 14 September 2006. The registered capital of the company was RMB10 million. In August 2008, Beijing China Sciences General Energy & Environment Co., Ltd. acquired the abovementioned shares and made changes in its registration to become the sole shareholder of the company. On 23 July 2009, KCS Changde acquired all the shares abovementioned and applied for increasing the registered capital by RMB73.78 million. Thereafter, the registered capital of Hunan Changde became RMB83.78 million, with the accumulated paid-up capital accounting for 100% of the registered capital. The abovementioned share transferal and increases in the registered capital have been approved by the Administration of Industry and Commerce of Changde City. The registration number of Business License for Enterprise Legal Person of Hunan Changde is 430702000000362, and the term of operation is for 30 years.

The scope of business of Hunan Changde is mainly the comprehensive utilisation of urban household waste incineration treatment (power generation, steam production). Hunan Changde commenced construction in December 2009, commenced operation on 28 February 2012, and has obtained the power business license and entered the phase of commercial operation in March 2012. The parent company of Hunan Changde is KCS Changde (established in Hong Kong), which is ultimately owned as to 80% by Khazanah Nasional Berhad (established in Malaysia).

Hunan Changde is located at Tanshuping Village, Deshan Development Zone, Changde City, south to Changzhang Expressway, and at the crossroad of Road No. 12 and Road No. 10 in Deshan Development Zone. The project site is 500 metres from Changzhang Expressway to the north, 1.0 kilometre from Shimen-Changsha Railway and National Highway G319, 1.0 kilometre from National Highway G207 to the east, with convenient transportation. It has a land with site area of 100 Mu.

The construction scale of investment of Hunan Changde's daily waste treatment capacity is 1,000 tonnes/day, and the actual treatment scale is 800 tonnes/day. Its production equipment includes waste incinerators comprising of two 500 tonnes/day circulating fluidized bed waste incinerators, and steam turbine-generator units comprising of two 12MW condensing steam turbine-generator units.

In the relevant periods, Hunan Changde has signed the "Waste Supply and Settlement Agreement"(《垃圾供應與結算協議》) for waste treatment with Changde City Environmental Health Management Office(常德市環境衛生管理處), which provides that Changde City Environmental Health Management Office shall be responsible for the collection and transportation of household waste in the urban area (including the rural area of Wuling Area), to coordinate the transportation of household waste in Hanshou County, Taoyuan County and urban-rural integration coordination zones (guaranteed monthly volume to be not less than an average of 600 tonnes per day) to the incineration plants, whereas Hunan Changde is responsible for harmless treatment of the incineration slag and fly ash and transportation to the designated premises.

In the relevant periods, for power operation: (1) On 2 March 2011, Hunan Province Power Company(湖南省電力公司) and Hunan Changde signed the "Agreement for Use of Power Market Trading and Operation System on the Power Grid in Hunan Province"(《湖南電網電力市場交易運營系統使用協議書》), which provides that Hunan Province Power Company shall provide the power market trading and operation system on the power grid in Hunan Province to Hunan Changde. (2) On 30 March 2011, Changde Power Administration Bureau(常德電業局) and Hunan Changde signed the "Grid Connection and Dispatch Agreement"(《併網調度協議》), under which Hunan Changde Power Plant shall be included in the grid for operation. (3) In January 2013, Hunan Province Power Company and Hunan Changde signed the "Power Sales and Purchase Contract"(《購售電合同》), which provides that Hunan Province Power Company shall purchase all the power generated by Hunan Changde Power Plant.

Save as set out above, as at 31 December 2011, 2012 and 2013, the KCS Changde Group did not have any concrete future plans in place with regard to any material investments or capital assets; or any concrete plans to introduce any new business, products or services.

FINANCIAL OVERVIEW

Waste-incineration power generation in Hunan Province, PRC was the single operating segment of the KCS Changde Group and the waste-incineration power generation plant commenced commercial operation in March 2012. During the two years ended 31 December 2013 and 2012, it had generated electricity of 71.17 million kWh and 51.12 million kWh, respectively and had treated solid waste of 275,000 tonnes and 189,000 tonnes, respectively.

Revenue

The KCS Changde Group recorded total revenue of RMB37.92 million, RMB35.99 million and RMB54.75 million in 2011, 2012 and 2013, respectively. The revenues were generated from sale of electricity waste treatment and rendering of construction services. An analysis of the revenue is summarized as follows:

	2011 *RMB'000*	**% to total revenue**	**2012** *RMB'000*	**% to total revenue**	**2013** *RMB'000*	**% to total revenue**
Sale of electricity	—	—	23,919	66.45	41,570	75.93
Waste treatment	—	—	6,552	18.20	13,176	24.07
Rendering of construction services	37,915	100.00	5,523	15.35	—	—
	37,915	100.00	35,994	100.00	54,746	100.00

Since the waste-incineration power generation plant of the Hunan Project commenced commercial operations in March 2012, it only generated revenue from sale of electricity and waste treatment starting from 2012. The rendering of construction services in 2011 and 2012 represented the recognition of income from the construction of the power plant under the licensed operation agreement.

Excluding the revenue from construction services, the total revenue has increased by 79.67% in 2013. The increase in 2013 was mainly due to the increase in both the electricity generated and the amount of solid waste treated and the increase in the on-grid tariff and waste treatment fee.

Cost of sales

The cost of sales amounted to RMB37.92 million, RMB31.15 million and RMB35.13 million in 2011, 2012 and 2013, respectively. Excluding the construction services, the cost of sales increased by 37.05% in 2013 due to an increase in the amount of waste treated and electricity generated.

Gross profit

The KCS Changde Group achieved a gross profit of nil, RMB4.84 million and RMB19.62 million in 2011, 2012 and 2013, respectively. The gross profit margin has improved from 13.45% in 2012 to 35.84% in 2013 due to the streamlining of operations and the increase in amount of waste treated. The gross profit is expected to improve further as the amount of waste treated increases.

Other income and gains, net

Other income and gains, net was RMB9.45 million, RMB2.11 million and RMB6.11 million in 2011, 2012 and 2013, respectively were mainly represented by the foreign exchange gain from the shareholder's loans denominated in US dollar.

Administrative expenses

The administrative expenses maintained at approximately the same level during the periods under review (2011: RMB3.29 million, 2012: RMB3.42 million and 2013: RMB3.19 million).

Finance cost

Finance cost of RMB0.10 million, RMB0.17 million and RMB0.08 million in 2011, 2012 and 2013, respectively, were mainly interest on the loan from the ultimate holding company and the loan from a related company. The loan from ultimate holding company as at 31 December 2011, 2012 and 2013 were RMB1.34 million, RMB1.81 million and RMB1.82 million, respectively, and the loans borne an interest of 5% per annum. The loan from a related company as at 31 December 2011, 2012 and 2013 were RMB2.00 million, RMB2.00 million and nil, respectively, and the loans borne a floating interest as stipulated by the People's Bank of China in corresponding years.

Profit for the year

The net profit for the year in 2011, 2012 and 2013 was RMB6.06 million, RMB1.73 million and RMB21.59 million, respectively. The decrease in net profit from 2011 to 2012 was mainly due to less foreign exchange gain arising from amount due to the immediate holding company recognised in 2012 as a result of a smaller appreciation of RMB against US dollar in 2012. However, in general, the operating results were improved during the periods due to the higher volume of electricity generated with the increase of the volume of wasted supplied.

Financial position

As at 31 December 2013, the non-current assets of the KCS Changde Group amounted to RMB213.56 million, which was mainly represented by the plant and machinery and the intangible assets. The inventories were mainly coal used during the combustion process. The turnover period of the trade receivables and trade payables in 2013 were approximately 141 days and 38 days, respectively.

Liquidity and financial resources

As at 31 December 2013, the total assets of the KCS Changde Group amounted to RMB264.84 million, maintained at similar level as compared with the total assets as at 31 December 2011 and 2012 (2011: RMB252.41 million and 2012: RMB255.37 million). The KCS Changde Group had a net assets value of RMB8.84 million, RMB10.57 million and RMB32.16 million as at 31 December 2011, 2012 and 2013, respectively. As at 31 December 2013, the major borrowings was the shareholder's loans of approximately RMB202.91 million. The KCS Changde Group did not have any bank borrowings and had no charge on its assets. The cash and cash equivalents of the KCS Changde Group was RMB10.69 million, RMB13.03 million and RMB16.97 million as at 31 December 2011, 2012 and 2013, respectively and were mainly denominated in RMB. As at the end of 2013, its current ratio remained steady at 22.04% (2011: 14.36% and 2012: 16.74%) and the total liabilities to assets ratio remained steady at 87.86% (2011: 96.50% and 2012: 95.86%).

There were net cash outflow of RMB21.44 million in 2011, and net cash inflows of RMB2.34 million in 2012 and RMB3.94 million in 2013. The net cash outflow in 2011 was mainly because the power plant was still under construction in 2011 and there was no income from the waste treatment and electricity generated. KCS Changde Group was mainly financed by the shareholder's loans.

The net operating cash inflows were RMB7.53 million and RMB19.95 million in 2012 and 2013, respectively. The improving cash inflows from operating activities were due to the commencement of commercial operation in 2012 and the increasing amount of waste treatment and the electricity generated during the periods. During the periods under review, there were payment of RMB37.71 million, RMB5.02 million and RMB13.93 million in 2011, 2012 and 2013, respectively, which were mainly the payment for the construction of the power plant.

In 2011, 2012 and 2013, there was no change in the capital structure of the KCS Changde Group and the KCS Changde Group made no investment, material acquisition and disposal of subsidiaries and associated companies. The business of the KCS Changde Group was principally located in the PRC and the majority of its transactions were conducted in Renminbi. In 2011, 2012 and 2013, the KCS Changde Group did not have any material contingent liabilities nor any significant foreign exchange rate risk. In 2011, 2012 and 2013, the KCS Changde Group did not hold any financial derivatives as hedging arrangements. Saved for the capital commitment for the incineration power generation project of RMB8.26 million in 2011, KCS Changde Group has no material capital commitments as at 31 December 2011, 2012 and 2013.

During the construction period of the waste incineration-power generation plant, the construction cost was funded by the KCS Changde Group with shareholder's loans. Upon completion of the plants and the commencement of the commercial operation, the daily operation of the plants would be funded by the income from waste treatment and sale of electricity. Any excess funding, after taking into account of working capital needs of the plants, would be utilized to repay shareholder's loans and then investment by the investors gradually.

EMPLOYEES

As at 31 December 2013, the KCS Changde Group had 94 employees and the remuneration policy and package (including social security benefits) were formulated in accordance with the applicable labour regulations in Hunan Province and were periodically reviewed by the management based on the employees' work performance, professional experience and prevailing market standards. In 2013, the total employee benefit expense of the KCS Changde Group amounted to RMB5.77 million (2012: RMB5.07 million and 2011: RMB0.39 million).

The information set out in this appendix does not form part of the accountants' reports prepared by the reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong, set out in Appendices IIA and IIB "Accountants' Report on the KCS Taian Group" and "Accountants' Report on the KCS Changde Group" to this circular, respectively, and are included to herein for information only.

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

Introduction

The accompanying unaudited pro forma financial information (the "**Unaudited Pro Forma Financial Information**") of Beijing Development (Hong Kong) Limited (the "**Company**") and its subsidiaries (hereafter collectively referred to as the "**Group**"), KCS Taian Investments Company Limited ("**KCS Taian**") and its subsidiary (hereafter collectively referred to as the "**KCS Taian Group**") and KCS Changde Investments Company Limited ("**KCS Changde**") and its subsidiary (hereafter collectively referred to as the "**KCS Changde Group**") (the Group, the KCS Taian Group and the KCS Changde Group are hereafter collectively referred to as the "**Enlarged Group**"), comprising the unaudited pro forma consolidated statement of financial position of the Enlarged Group as at 30 June 2013, the unaudited pro forma consolidated statement of profit or loss and the unaudited pro forma consolidated statement of cash flows of the Enlarged Group for the year ended 31 December 2012, has been prepared by the Directors in accordance with rule 4.29 of the Listing Rules for the purpose of illustrating the effect of the proposed acquisitions of the entire issued capital of and shareholders loans in KCS Changde and KCS Taian (the "**Acquisition**") to the Group.

The preparation of the unaudited pro forma consolidated statement of financial position of the Enlarged Group is based on (i) the unaudited consolidated statement of financial position of the Group as at 30 June 2013 which has been extracted from the published interim report of the Group for the six months ended 30 June 2013 dated 29 August 2013; and (ii) the audited consolidated statement of financial position of each of the KCS Taian Group and the KCS Changde Group as at 31 December 2013, which has been extracted from the accountants' reports as set out in Appendices IIA and IIB, respectively, to this Circular, and adjusted in accordance with the pro forma adjustments described in the notes thereto, as if the Acquisition had been completed on 30 June 2013.

The preparation of the unaudited pro forma consolidated statement of profit or loss and the unaudited pro forma consolidated statement of cash flows of the Enlarged Group is based on (i) the audited consolidated statement of profit or loss and the audited consolidated statement of cash flows of the Group for the year ended 31 December 2012 which have been extracted from the published annual report of the Group for the year ended 31 December 2012 dated 27 March 2013; and (ii) the audited consolidated statements of profit or loss and the audited consolidated statements of cash flows of each of the KCS Taian Group and the KCS Changde Group for the year ended 31 December 2013 which have been extracted from the accountants' reports as set out in Appendices IIA and IIB, respectively, to this Circular, and adjusted in accordance with the pro forma adjustments described in the notes thereto, as if the Acquisition had been completed on 1 January 2012.

A narrative description of the pro forma adjustments of the Acquisition that are directly attributable to the transactions and factually supportable, is summarised in the accompanying notes.

The Unaudited Pro Forma Financial Information of the Enlarged Group has been prepared based on a number of assumptions, estimates, uncertainties, currently available information and are prepared for illustrative purpose only. Because of its hypothetical nature, it may not purport to describe the results of operations, financial positions or cash flows of the Enlarged Group had the Acquisition been completed as at the respective dates to which it is made up to or at any future dates. Furthermore, the Unaudited Pro Forma Financial Information of the Enlarged Group does not purport to predict the Enlarged Group's future results of operations, financial positions or cash flows. The Unaudited Pro Forma Financial Information of the Enlarged Group should be read in the conjunction with the financial information on the Group as set out in Appendix I, the published annual report of the Company for the year ended 31 December 2012, the published interim report of the Company for the six months ended 30 June 2013, the financial information of each of the KCS Taian Group and the KCS Changde Group as set out in Appendices IIA and IIB, respectively, to this Circular, the Company's announcements dated 29 January 2014 and 24 February 2014 and other financial information included elsewhere in this Circular. The Unaudited Pro Forma Financial Information of the Enlarged Group does not take into account any trading or other transactions subsequent to the dates of the respective financial statements of the companies comprising the Enlarged Group.

As further disclosed in the section headed "Funding arrangement — Impact on the shareholding structure of the Company" in this Circular, the Company understands from Beijing Enterprises Holdings Limited ("BEHL") and its subsidiaries that prior to Completion of the Acquisition, Idata Finance Trading Limited, a wholly-owned subsidiary of BEHL, intends to: (i) subscribe part of the standby bonds (the "Standby Bonds") with an aggregate principal amount of not less than HK$113,000,000 upon receiving the requisite notice from the Company pursuant to the terms of the Standby Bonds, (ii) exercise the conversion rights attaching to the Firm Bonds (as defined in this Circular) in full such that an aggregate of 266,000,000 new Shares would fall to be allotted and issued to the Subscriber upon such conversion of the Firm Bonds, and (iii) subject to and upon completion of item (i) above, exercise the conversion rights attaching to part of the Standby Bonds in an aggregate principal amount of HK$22,600,000 such that an aggregate of 20,000,000 new Shares would fall to be allotted and issued to the Subscriber upon such conversion of the Standby Bonds.

The above transactions have not been accounted for in this Unaudited Pro Forma Financial Information of the Enlarged Group.

As mentioned in the section heading "Financial and trading prospect of the Enlarged Group — Financial and other impact" in the Letter From the Board in this Circular, upon Completion, KCS Taian and KCS Changde will become wholly owned subsidiaries of the Company, the consolidated financial results, assets and liabilities of the KCS Taian Group and the KCS Changde Group will be consolidated into the consolidated financial statements of the Group.

Unaudited Pro Forma Consolidated Statement of Financial Position of the Enlarged Group

As at 30 June 2013

	The Group as at 30 June 2013	The KCS Taian Group as at 31 December 2013		The KCS Changde Group as at 31 December 2013		Pro forma adjustments		Pro forma Enlarged Group as at 30 June 2013
	HK$'000	*RMB'000*	*HK$'000*	*RMB'000*	*HK$'000*	*HK$'000*		*HK$'000*
	(note 1)	*(note 2)*	*(note 3)*	*(note 2)*	*(note 3)*		*Notes*	
NON-CURRENT ASSETS								
Property, plant and equipment	10,097	180,160	230,893	1,633	2,093			243,083
Investment properties	46,972	—	—	—	—			46,972
Prepaid land lease payments	—	7,726	9,902	—	—			9,902
Goodwill	—	—	—	—	—	696,540	*4a*	696,540
Other intangible assets	2,616	6,334	8,117	211,923	271,601			282,334
Investments in a jointly-controlled entity	4,857	—	—	—	—			4,857
Investments in associates	26,557	—	—	—	—			26,557
Trade receivables	9,961	—	—	—	—			9,961
Prepayments	32,406	—	—	—	—			32,406
Total non-current assets	133,466	194,220	248,912	213,556	273,694			1,352,612
CURRENT ASSETS								
Inventories	22,958	3,161	4,051	271	347			27,356
Amounts due from contract customers	2,256	—	—	—	—			2,256
Trade receivables	62,723	10,825	13,873	21,087	27,025			103,621
Prepayments, deposits and other receivables	42,581	16,469	21,107	12,962	16,612			80,300
Pledged deposits	4,234	—	—	—	—			4,234
Cash and cash equivalents	1,127,218	24,112	30,902	16,967	21,745	(111,230) (4,000)	*4a* *4b*	1,064,635
Total current assets	1,261,970	54,567	69,933	51,287	65,729			1,282,402

	The Group as at 30 June 2013	The KCS Taian Group as at 31 December 2013		The KCS Changde Group as at 31 December 2013		Pro forma adjustments		Pro forma Enlarged Group as at 30 June 2013
	HK$'000	*RMB'000*	*HK$'000*	*RMB'000*	*HK$'000*	*HK$'000*		*HK$'000*
	(note 1)	*(note 2)*	*(note 3)*	*(note 2)*	*(note 3)*		*Notes*	
CURRENT LIABILITIES								
Trade and bills payables	81,892	6,503	8,334	3,653	4,682			94,908
Amounts due to contract customers	11,904	—	—	—	—			11,904
Other payables and accruals	86,731	246,511	315,928	229,034	293,530	(555,226)	*4a*	140,963
Income tax payable	6,757	—	—	—	—			6,757
Total current liabilities	187,284	253,014	324,262	232,687	298,212			254,532
NET CURRENT ASSETS/ (LIABILITIES)	1,074,686	(198,447)	(254,329)	(181,400)	(232,483)			1,027,870
TOTAL ASSETS LESS CURRENT LIABILITIES	1,208,152	(4,227)	(5,417)	32,156	41,211			2,380,482
NON-CURRENT LIABILITIES								
Trade payables	13,965	—	—	—	—			13,965
Convertible bonds	269,449	—	—	—	—			269,449
Total non-current liabilities	283,414	—	—	—	—			283,414
Net assets/(liabilities)	924,738	(4,227)	(5,417)	32,156	41,211			2,097,068
EQUITY								
Equity attributable to shareholders of the Company								
Issued capital	854,460	9	10	—	—	347,000	*4a*	1,201,460
						(10)	*4c*	
Reserves	66,821	(4,236)	(5,427)	32,156	41,211	829,330	*4a*	892,151
						(4,000)	*4b*	
						(35,784)	*4c*	
	921,281	(4,227)	(5,417)	32,156	41,211			2,093,611
Non-controlling interests	3,457	—	—	—	—			3,457
Total equity/(deficiency in assets)	924,738	(4,227)	(5,417)	32,156	41,211			2,097,068

Unaudited Pro Forma Consolidated Statement of Profit or Loss of the Enlarged Group

For the year ended 31 December 2012

	The Group for the year ended 31 December 2012	The KCS Taian Group for the year ended 31 December 2013		The KCS Changde Group for the year ended 31 December 2013		Pro forma adjustments		Pro forma Enlarged Group for the year ended 31 December 2012
	HK$'000	*RMB'000*	*HK$'000*	*RMB'000*	*HK$'000*	*HK$'000*		*HK$'000*
	(note 1)	*(note 5)*	*(note 3)*	*(note 5)*	*(note 3)*		*Note*	
REVENUE	208,387	57,011	73,065	54,746	70,162			351,614
Cost of sales	(187,856)	(48,513)	(62,174)	(35,127)	(45,019)			(295,049)
Gross profit	20,531	8,498	10,981	19,619	25,143			56,565
Other income and gains, net	31,991	7,159	9,175	6,105	7,824			48,990
Selling and distribution expenses	(5,920)	—	—	—	—			(5,920)
Administrative expenses	(65,171)	(6,314)	(8,093)	(3,193)	(4,092)	(4,000)	4b	(81,356)
Other expenses, net	(1,154)	(650)	(833)	—	—			(1,987)
Finance costs	(4,507)	(338)	(433)	(83)	(106)			(5,046)
Share of profits and losses of:								
A jointly-controlled entity	679	—	—	—	—			679
Associates	(2,964)	—	—	—	—			(2,964)
PROFIT/(LOSS) BEFORE TAX	(26,515)	8,355	10,707	22,448	28,769			8,961
Income tax	(135)	(772)	(989)	(860)	(1,102)			(2,226)
PROFIT/(LOSS) FOR THE YEAR	(26,650)	7,583	9,718	21,588	27,667			6,735
Attributable to:								
Shareholders of the Company	(18,833)	7,583	9,718	21,588	27,667			14,552
Non-controlling interests	(7,817)	—	—	—	—			(7,817)
	(26,650)	7,583	9,718	21,588	27,667			6,735

Unaudited Pro Forma Consolidated Statement of Cash Flows of the Enlarged Group

For the year ended 31 December 2012

	The Group for the year ended 31 December 2012	The KCS Taian Group for the year ended 31 December 2013		The KCS Changde Group for the year ended 31 December 2013		Pro forma adjustments		Pro forma Enlarged Group for the year ended 31 December 2012
	HK$'000	*RMB'000*	*HK$'000*	*RMB'000*	*HK$'000*	*HK$'000*		*HK$'000*
	(note 1)	*(note 5)*	*(note 3)*	*(note 5)*	*(note 3)*		*Note*	
CASH FLOWS FROM OPERATING ACTIVITIES								
Profit/(loss) before tax	(26,515)	8,355	10,707	22,448	28,769	(4,000)	*4b*	8,961
Adjustments for:								
Gains on deemed partial disposals of interests in an associate	(9,592)	—	—	—	—			(9,592)
Share of profits and losses of a jointly-controlled entity	(679)	—	—	—	—			(679)
Share of profits and losses of associates	2,964	—	—	—	—			2,964
Bank interest income	(11,585)	—	—	(34)	(44)			(11,629)
Finance costs	—	338	433	83	106			539
Imputed interest on interest-free trade receivables with extended credit periods	(5,154)	—	—	—	—			(5,154)
Imputed interest on interest-free trade payables with extended credit periods	4,507	—	—	—	—			4,507
Depreciation	2,799	13,880	17,789	219	281			20,869
Fair value loss on investment properties	25	—	—	—	—			25
Amortisation of prepaid land lease payments	—	184	236	—	—			236
Amortisation of other intangible assets	797	1,333	1,708	8,811	11,292			13,797
Impairment of an amount due from an associate	33	—	—	—	—			33
Impairment of trade receivables, net	931	—	—	—	—			931
Impairment of other receivables, net	116	630	807	—	—			923
Loss on disposal of items of property, plant and equipment, net	6	20	26	—	—			32

	The Group for the year ended 31 December 2012	The KCS Taian Group for the year ended 31 December 2013		The KCS Changde Group for the year ended 31 December 2013		Pro forma adjustments	Pro forma Enlarged Group for the year ended 31 December 2012
	HK$'000	*RMB'000*	*HK$'000*	*RMB'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(note 1)	*(note 5)*	*(note 3)*	*(note 5)*	*(note 3)*		
	(41,347)	24,740	31,706	31,527	40,404		26,763
Decrease/(increase) in inventories	6,735	(663)	(850)	1,189	1,524		7,409
Decrease/(increase) in trade receivables	16,480	6,217	7,968	(11,824)	(15,154)		9,294
Decrease/(increase) in prepayments, deposits and other receivables	(3,050)	(886)	(1,135)	53	68		(4,117)
Increase/(decrease) in trade and bills payables	(45,120)	3,259	4,177	91	117		(40,826)
Decrease in amounts due to contract customers	(2,615)	—	—	—	—		(2,615)
Decrease in other payables and accruals	(7,110)	(4,064)	(5,208)	(1,122)	(1,438)		(13,758)
Decrease in deferred income	(2,471)	—	—	—	—		(2,471)
Cash generated from/(used in) operations	(78,498)	28,603	36,658	19,914	25,521		(20,319)
Bank interest received	11,585	—	—	34	44		11,629
Dividend received from a jointly-controlled entity	420	—	—	—	—		420
Mainland China corporate income tax paid	(307)	—	—	—	—		(307)
Net cash flows from/(used in) operating activities	(66,800)	28,603	36,658	19,948	25,565		(8,577)
CASH FLOWS FROM INVESTING ACTIVITIES							
Purchases of items of property, plant and equipment	(5,677)	(733)	(939)	(733)	(939)		(7,555)
Prepayment of a property	(31,605)	—	—	—	—		(31,605)
Proceeds from disposal of items of property, plant and equipment	58	260	333	—	—		391
Purchases of other intangible assets	(1,877)	(283)	(363)	(13,197)	(16,914)		(19,154)

	The Group for the year ended 31 December 2012	The KCS Taian Group for the year ended 31 December 2013		The KCS Changde Group for the year ended 31 December 2013		Pro forma adjustments	Pro forma Enlarged Group for the year ended 31 December 2012
	HK$'000	*RMB'000*	*HK$'000*	*RMB'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(note 1)	*(note 5)*	*(note 3)*	*(note 5)*	*(note 3)*		
Proceeds from disposal of a jointly-controlled entity	35,264	—	—	—	—		35,264
Increase in an amount due from an associate	(33)	—	—	—	—		(33)
Decrease in time deposits with maturity of more than three months when acquired	13,471	—	—	—	—		13,471
Increase in pledged deposits	(4,606)	—	—	—	—		(4,606)
Net cash flows from/(used in) investing activities	4,995	(756)	(969)	(13,930)	(17,853)		(13,827)
CASH FLOWS FROM FINANCING ACTIVITIES							
Decrease in interest-bearing other payables	—	(9,428)	(12,083)	(2,000)	(2,563)		(14,646)
Interest paid	—	(338)	(433)	(83)	(106)		(539)
Capital contribution by a non-controlling equity holder	5,291	—	—	—	—		5,291
Net cash flows from/(used in) financing activities	5,291	(9,766)	(12,516)	(2,083)	(2,669)		(9,894)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(56,514)	18,081	23,173	3,935	5,043		(32,298)
Cash and cash equivalents at beginning of year	608,262	6,031	7,729	13,032	16,702		632,693
CASH AND CASH EQUIVALENTS AT END OF YEAR	551,748	24,112	30,902	16,967	21,745		600,395

	The Group for the year ended 31 December 2012	The KCS Taian Group for the year ended 31 December 2013		The KCS Changde Group for the year ended 31 December 2013		Pro forma adjustments	Pro forma Enlarged Group for the year ended 31 December 2012
	HK$'000	*RMB'000*	*HK$'000*	*RMB'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(note 1)	*(note 5)*	*(note 3)*	*(note 5)*	*(note 3)*		
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS							
Cash and bank balances other than time deposits	304,373	24,112	30,902	16,967	21,745	(4,000)	353,020
Time deposits	348,456	—	—	—	—		348,456
Less: Pledged deposits	(5,779)	—	—	—	—		(5,779)
Cash and cash equivalents as stated in the consolidated statement of financial position	647,050	24,112	30,902	16,967	21,745		695,697
Less: Time deposits with maturity of more than three months when acquired	(95,302)	—	—	—	—		(95,302)
Cash and cash equivalents as stated in the consolidated statement of cash flows	551,748	24,112	30,902	16,967	21,745		600,395

Notes:

1. The unaudited pro forma financial information of the Group as at 30 June 2013 and for the year ended 31 December 2012 were extracted from the interim report of the Company dated 29 August 2013 and annual report of the Company date 27 March 2013, respectively.

2. The audited consolidated statements of financial position of the KCS Taian Group and the KCS Changde Group as at 31 December 2013 were extracted from the accountants' report on the KCS Taian Group and the KCS Changde Group as set out in Appendices IIA and IIB, respectively, to this Circular. For the purpose of this Unaudited Pro Forma Financial Information of the Enlarged Group, the balances with related parties in the respective consolidated statements of financial position of the KCS Taian Group and the KCS Changde Group are classified as "Other payables and accruals" in the unaudited pro forma consolidated statement of financial position of the Enlarged Group. In addition, the Directors assumed that the consolidated statements of financial position of the KCS Taian Group and the KCS Changde Group as at 31 December 2013 approximated to those as at 30 June 2013, the Completion Date for the purpose of preparing the unaudited pro forma consolidated statement of financial position.

3. The audited consolidated statement of financial position, consolidated statement of profit or loss and consolidated statement of cash flows of the KCS Taian Group and the KCS Changde Group and other items denominated in Renminbi are translated into Hong Kong dollars at the approximate exchange rate of RMB1 to HK$1.2816, for illustration purpose only and such translation does not constitute a representation that any amount has been, could have been, or may otherwise be exchanged or converted at the above rate.

4. (a) Under Hong Kong Financial Reporting Standard 3 (Revised) *Business Combinations* issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), the Group will apply the purchase method to account for the acquisition of the entire issued capital of KCS Taian and KCS Changde in the consolidated financial statements of the Group. The goodwill arising from the Acquisition is calculated as follows:

	Notes	*HK$'000*
Cash consideration	*(i)*	111,230
Fair value of consideration shares issued	*(ii)*	1,176,330
Total consideration		1,287,560
Less: Shareholders loans acquired	*(iii)*	(555,226)
Consideration for the entire issued capital of KCS Taian and KCS Changde		732,334
Less: Fair value of the net assets acquired	*(iv)*	(35,794)
Goodwill arising from the Acquisition (the "**Goodwill**")	*(v)*	696,540

Notes:

(i) In accordance with the Sale and Purchase Agreement (as defined in this Circular), the cash consideration for the Acquisition is RMB86,790,000 (equivalent to approximately HK$111,230,000), the consideration will be satisfied by way of cash payable by the Company to the Vendor.

(ii) The fair value of consideration shares issued is calculated based on the closing price of HK$3.39 per Share as quoted on the Stock Exchange on 24 February 2014 (the date of the Sale and Purchase Agreement) and 347,000,000 Consideration Shares, which increases the equity of the Company as follows:

	HK$'000
Issued capital	347,000
Reserves — Share premium	829,330
	1,176,330

(iii) The Shareholders Loans acquired by the Company amounted to RMB433,229,000 (equivalent to approximately HK$555,226,000) of which RMB230,324,000 and RMB202,905,000 were acquired from the KCS Taian Group and the KCS Changde Group, respectively. Such Shareholders Loans were eliminated in the preparation of the unaudited pro forma consolidated statement of financial position of the Enlarged Group.

(iv)

	The KCS Taian Group	**The KCS Changde Group**	**Total**	
	RMB'000	*RMB'000*	*RMB'000*	*HK$'000*
	(note 2)	*(note 2)*		*(note 3)*
Net assets/(liabilities) acquired	(4,227)	32,156	27,929	35,794

For the purpose of this Unaudited Pro Forma Financial Information of the Enlarged Group, in the opinion of the Directors, the KCS Taian Group's and the KCS Changde Group's fair values of the assets and liabilities being acquired is subject to changes upon completion of the Acquisition because the fair value of the assets and liabilities being acquired shall be assessed on the date of completion.

Since this Unaudited Pro Forma Financial Information of the Enlarged Group is prepared solely for illustrative purposes, the Directors had assumed that the fair values of all assets and liabilities of the KCS Taian Group and the KCS Changde Group to be their respective carrying values at the Completion Date. The possible changes to fair values of the assets and liabilities of the KCS Taian Group and the KCS Changde Group being acquired were not reflected in the Unaudited Pro Forma Financial Information of the Enlarged Group.

(v) As mentioned in note 4(a)(iv) above, in the preparation of this Unaudited Pro Forma Financial Information of the Enlarged Group, the Directors had not considered the fair value adjustments of all assets and liabilities as at the Completion Date. Upon the Completion, the fair values of all identifiable assets and liabilities of the KCS Taian Group and the KCS Changde Group as at the Completion Date, will be assessed. Accordingly, the Goodwill so calculated, if any, may be materially different from that in the calculation above.

According to the Group's accounting policy, after initial recognition, the Goodwill will be measured at cost less any accumulated impairment losses. The Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, the Goodwill is, from the acquisition date, allocated to one of the Group's cash generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Further, according to the Group's accounting policy, impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the Goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss will be recognised. An impairment loss recognised for the Goodwill will not be reversed in a subsequent period.

In the preparation of this Unaudited Pro Forma Financial Information of the Enlarged Group, the Directors had performed an impairment assessment of the Goodwill in accordance with HKAS 36 *Impairment of Assets* and the Group's accounting policy. Based on the impairment test, the recoverable amount of the cash-generating unit in which the Target Groups was assigned exceeds its carrying amount and accordingly, no pro forma adjustment in respect of goodwill impairment is made by the Directors in the Unaudited Pro Forma Financial Information for the Enlarged Group. Such assessment assumed that (i) there is no major material adverse changes in the fair values of the assets and liabilities; and (ii) the identifiable assets and liabilities can be realised at their book values. However, should there be any adverse changes to the business of the KCS Taian Group or the KCS Changde Group, including but not limited to, any subsequent adverse changes in the operation, impairment may be required to be recognised against the Goodwill in accordance with HKAS 36 and the Group's accounting policy.

The reporting accountants have conducted their engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 *Assurance Engagements to Report on the Compilation of Unaudited Pro Forma Financial Information Included in a Prospectus* and considered that the goodwill impairment test performed by the Directors is consistent with the Company's applicable financial reporting framework and its accounting policies under that framework. However, the reporting accountants did not perform an audit or review of the financial information used in the preparation of the goodwill impairment test prepared by the Directors.

The Directors confirmed that they will apply consistent accounting policies, principal assumptions and valuation method to assess impairment of the Goodwill in subsequent reporting periods in accordance with the requirement of HKAS 36. The Company also confirm with its auditors that they will audit and opine on the consolidated financial statements of the Company in accordance with Hong Kong Standards of Auditing.

(b) For the purpose of the preparation of the Unaudited Pro Forma Financial Information of the Enlarged Group, the direct expenses of accountancy, legal, valuation, stamp duty and other professional services related to the Acquisition are estimated to be HK$4,000,000.

(c) The adjustments include (i) the elimination of the issued capital of KCS Taian and KCS Change amounting to RMB9,000 (equivalent to approximately HK$10,000); and (ii) the elimination of the aggregate pre-acquisition reserves of the KCS Taian Group and the KCS Changde Group amounting to RMB27,929,000 (equivalent to approximately HK$35,784,000).

5. The audited consolidated statement of profit or loss and the audited consolidated statement of cash flows of the KCS Taian Group and the KCS Changde Group for the year ended 31 December 2013 were extracted from the accountants' report on the KCS Taian Group and the KCS Changde Group as set out in Appendices IIA and IIB, respectively, to this Circular, and for the purpose of the Unaudited Pro Forma Financial Information of the Enlarged Group, the Directors assumed that those approximated to the financial performances and cash flows for the year ended 31 December 2012.

B. REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is the text of a report received from the reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this Circular.

EY 安永

Ernst & Young
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27 March 2014

The Board of Directors
Beijing Development (Hong Kong) Limited
66/F Central Plaza
18 Harbour Road
Wan Chai
Hong Kong

Dear Sirs,

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Beijing Development (Hong Kong) Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to the "**Group**") by the directors of the Company (the "**Directors**") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 30 June 2013, the unaudited pro forma consolidated statement of profit or loss for the year ended 31 December 2012, the unaudited pro forma consolidated statement of cash flows for the year ended 31 December 2012, and related notes as set out on pages IV-1 to IV-14 of the Circular dated 27 March 2014 (the "**Circular**") issued by the Company (the "**Unaudited Pro Forma Financial Information**") in connection with the proposed acquisition (the "**Proposed Acquisition**") of the entire issued capital of KCS Changde Investments Company Limited and KCS Taian Investments Company Limited (collectively, the "**Target Companies**" and together with their respective subsidiary, collectively, the "**Target Groups**") and the related shareholders' loans by the Group. The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described in the section headed "Introduction" in Section A of Appendix IV to the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the Proposed Acquisition on the Group's financial position as at 30 June 2013 and the Group's financial performance and cash flows for the year ended 31 December 2012 as if the transaction had taken place at 30 June 2013 and 1 January 2012, respectively. As part of this process, information about the Group's financial position, financial performance and cash flows has been extracted by the Directors from the Group's financial statements for the six months ended 30 June 2013 and for the year ended 31 December 2012 as set out in the interim report of the Company dated 29 August 2013 and the annual report of the Company dated 27 March 2013, respectively. Information about the Target Groups' financial position, financial performance and cash flows has been extracted by the Directors from the financial information of each of the Target Companies for the three year ended December 2013 (on which accountants' reports have been published in Appendices IIA and IIB to the Circular).

Directors' responsibility for the Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to *Accounting Guideline 7 Preparation of Unaudited Pro Forma Financial Information for Inclusion in Investment Circulars* ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

Reporting Accountants' responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 *Assurance Engagements to Report on the Compilation of Unaudited Pro Forma Financial Information Included in a Prospectus* issued by the HKICPA. This standard requires that the reporting accountants comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information, in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the 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 the Proposed Acquisition on unadjusted financial information of the Group as if the Proposed Acquisition 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 Proposed Acquisition would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the Proposed Acquisition, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and

- the Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the Proposed Acquisition 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 properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

The following is the text of a business valuation report, prepared for the purpose of incorporation in this circular received from CBRE Limited, an independent valuer, in connection with the business valuation of KCS Changde as at 31 December 2013.

CBRE

27 March 2014

The Board of Directors
Beijing Development (Hong Kong) Limited
66th Floor, Central Plaza,
18 Harbour Road,
Wan Chai, Hong Kong

Dear Sirs,

RE: Valuation of 100% Equity Interest of KCS Changde Investments Company Limited

We refer to an instruction from Beijing Development (Hong Kong) Limited ("Beijing Development" or the "Instructing Party") to conduct valuation on the market value of 100% equity interest of KCS Changde Investments Company Limited (the "Target" or the "Company"), which wholly owns Changde Zhonglian Environmental Electricity Co. Ltd.

This valuation report is for the Instructing Party's circular publication purpose in relation to the acquisition of the Target. We confirm that we have made relevant investigations, enquiries and obtained such further information as we consider necessary for the purpose of providing our opinion. The valuation date is as at 31 December 2013 (the "Valuation Date").

BASIS OF VALUATION

We have observed and followed the standards laid down by the "RICS Valuation Professional Standards (January 2014)" published by the Royal Institution of Chartered Surveyors and "International Valuation Standards" (the "IVS") published by the International Valuation Standards Council.

Our valuation is conducted on market value basis. Market value is defined 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*".

BACKGROUND OF THE TARGET

The Target was incorporated in Hong Kong on 6 June 2008 as an investment holding company. The Target's wholly-owned subsidiary Changde Zhonglian Environmental Electricity Co. Ltd ("Hunan Changde") owns and operates a waste treatment and power generation plant in the city of Changde in the Hunan province of the People's Republic of China (the "PRC"). The plant is located approximately half a kilometer south of the Changzhang Expressway in Tanshuping Village, and is operated under a build-operate-transfer (BOT) arrangement.

The plant consists of two waste incinerators equipped with the circulating fluidized bed boiler burning technology and two 12MW steam turbine electricity generators. The waste incineration and power generation equipment are capable of treating 1,000 tonnes of waste per day and producing 303,000 kWh of electricity per day respectively. Hunan Changde has signed agreements with the local government to supply household waste to the plant at nil consideration as well as an exclusive contract to sell all of its electricity generated by the plant to the province's electric power company.

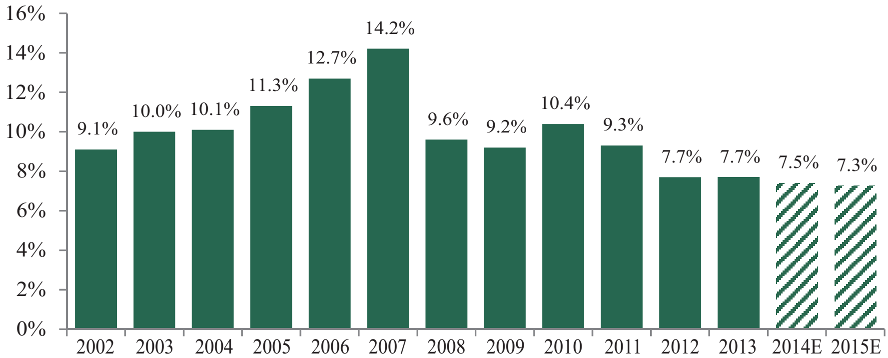
The Company generates all of its revenue from waste treatment and electricity generation. In 2013, 76% of total revenue was derived from the sale of electricity while waste treatment contributed the remaining 24%.

MACROECONOMIC OVERVIEW OF CHINA

The People's Republic of China is the world's second largest economy in terms of nominal Gross Domestic Product (GDP), surpassing Japan in 2010 and now behind only the United States. The country is widely credited for being the major driver of global economic growth over the past decade and remains as one of the fastest growing economies in the world.

Despite the recent financial crisis, the country's real GDP growth rate has averaged 8.9% annually since 2009, compared with low single digits and even economic recessions in other major economies. The strength of China's economy is highlighted by the country's relatively low unemployment rate, which lingered at around 4.1% throughout the past several years, compared with high single digits throughout Europe and North America.

Exhibit 1: Historical and Projected Real GDP Growth Rates of China



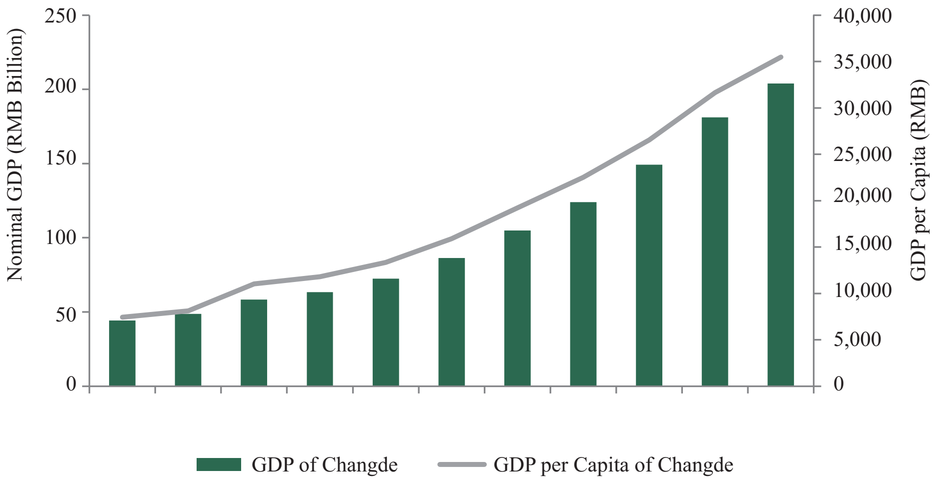
Source: National Bureau of Statistics, IMF

Looking ahead, China's growth is beginning to show signs of moderation, having achieved a growth rate of 7.7% in 2013, the lowest in 14 years and matching the growth rate in 2012. However, this beat the official GDP growth target set during the National People's Congress of 7.5% and is also above the average annual growth target of 7% for 2011 – 2015, as stated in the country's 12th Five-Year Plan in 2011. For comparison, the 11th Five-Year Plan (2006 – 2010) targeted an average annual growth rate of 7.5%, but the actual average growth rate came in significantly higher at around 11%. Exhibit 1 plots the historical real GDP growth, as well as the forecasts by the International Monetary Fund ("IMF") for 2014 and 2015, which points to a 7.5% and 7.3% real GDP growth respectively.

OVERVIEW OF CHANGDE

Changde is a prefecture level city situated in the northern region of the Hunan Province with population of 5.8 million as at 2012. The city has made substantial progress in economic growth over the past several years, having doubled its GDP in merely four years, reaching RMB204 billion by the end of 2012. The city has the third largest GDP out of 14 cities in the province following Changsha and Yueyang. GDP per capita has more than quadrupled over the past decade, and reached RMB35,475 in 2012.

Exhibit 2: Nominal GDP and GDP Per Capita of Changde



Source: CEIC, National Bureau of Statistics

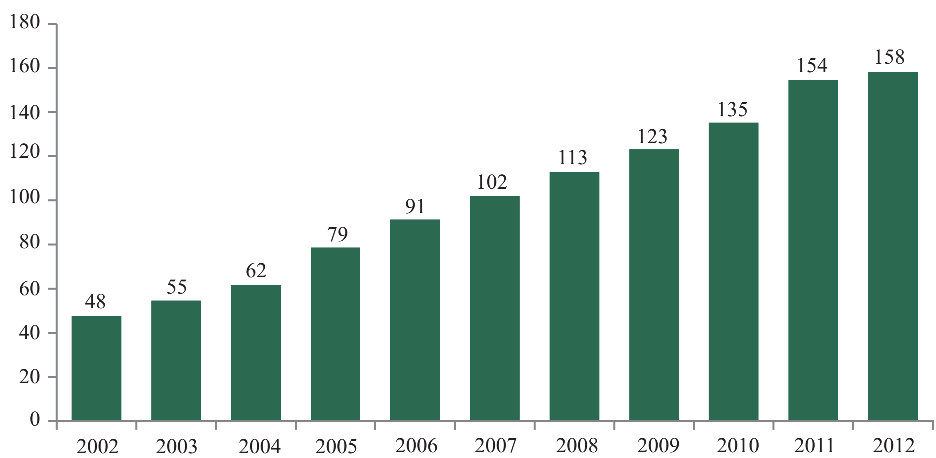
One of the key drivers of GDP growth is the rapid industrialization of the city. Almost half of Changde's GDP is contributed by the secondary industry, which generated value added output of RMB 100.8 Billion. Tobacco manufacturing, processing and electromechanical equipment, food, textiles and construction materials are among the most important industries for the city.

INDUSTRY OVERVIEW

Electricity Industry in Hunan

Driven by rapid industrialization and GDP growth in the Hunan province, the electricity industry has flourished along with the boom in electricity consumption. Total electricity consumption in the province reached 158 billion kWh in 2012, representing a compound annual growth rate of 12.8% for a decade.

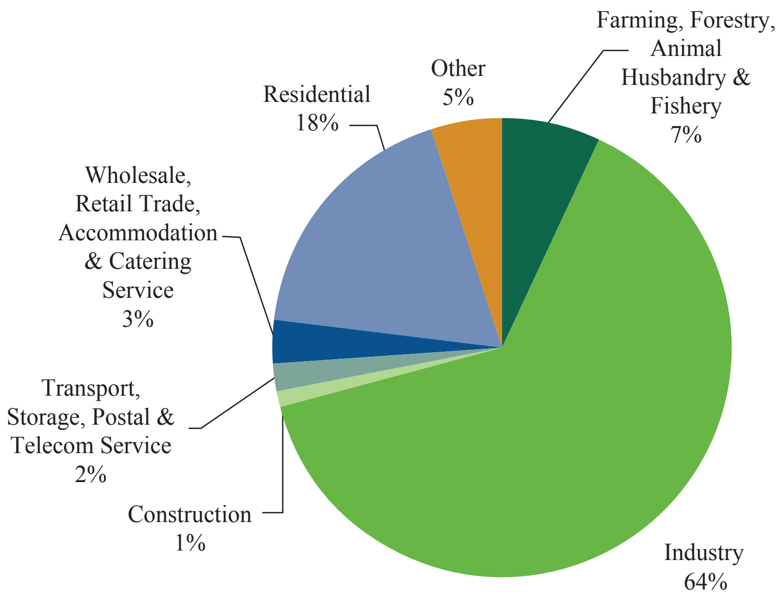
Exhibit 3: Electricity Consumption in Hunan (Billion kWh)



Source: CEIC, National Bureau of Statistics, the PRC

64% of the electricity consumed is used by industry participants such as those in the manufacturing sectors while residential users accounted for 18% of overall consumption. Transportation, telecom service, retail, farming, forestry, construction and other mostly service based industries, make up the remaining consumption.

Exhibit 4: Consumption of Electricity in Hunan by Type of User in 2012

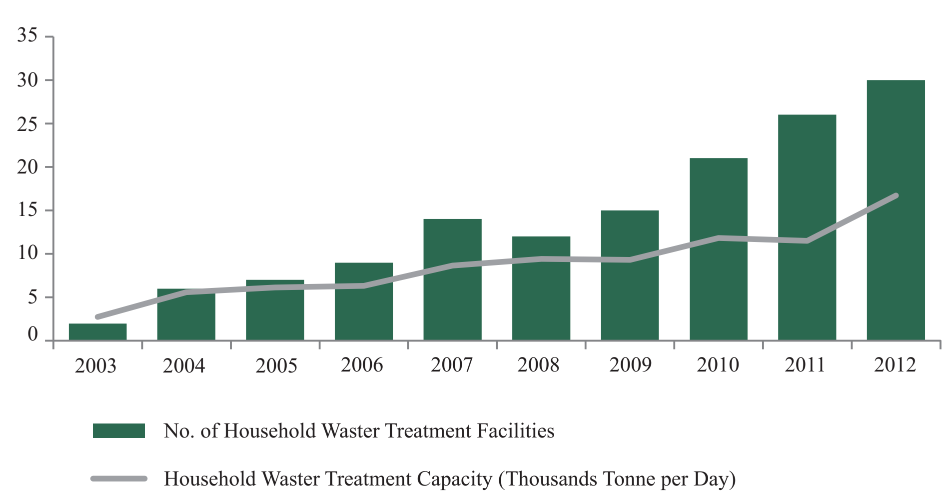


Source: CEIC, National Bureau of Statistics, the PRC

Household Waste Treatment Industry in Hunan

Similar to the trend of GDP growth, the number of waste treatment facilities in Hunan has increased rapidly since 2003. At the end of 2012, there were 30 facilities that treat household waste with a total treatment capacity of 16,700 tonne per day.

Exhibit 5: Household Waste Treatment Facilities and Capacity in Hunan



Source: CEIC, Ministry of Housing and Urban-Rural Development, the PRC

ASSESSMENT METHODOLOGIES

There are three generally accepted valuation approaches for the valuation of equity interest of the Target.

Asset Approach (or Cost Approach)

Asset approach (or known as cost approach) is an asset-based rather than a market-oriented method. It requires valuing the assets on an individual basis to add up to the total valuations of assets.

Under this approach, the expenses or costs on replacing or re-acquiring individual items or parts are estimated by valuers on an itemised basis.

However, the asset approach is not suitable in many circumstances especially for valuation of a company's business value, as it takes no consideration of the company's future business operation and development plan.

Market Approach

Market approach is the most straightforward valuation method in determining market value of assets. Under this approach, valuers seek to identify the transaction cases having been executed and qualified as a reference for value comparison. It is normally difficult to apply the approach to small non-listed companies, as there are insufficient comparables for reference and the public and reliable financial information is unavailable for valuers.

Income Approach

Income approach is an income-oriented valuation method assuming that the investors may invest in alternative business with similar characteristics but not necessarily identical with the subject business.

Under the income approach, company value equals to the present value of the future expected income of its businesses, which involves the principle of capitalisation. Generally, capitalisation is a process through which the expected incomes are discounted based on the required rate of return (risk factors).

SELECTION OF ASSESSMENT METHODOLOGY

After considering all three methods described above, we have selected the income approach to value the 100% equity interest of the Target.

We believe the cost approach to be insufficient in capturing the future economic benefits of the Target's assets given that the Company has already generated a stable stream of income and will likely to continue to grow in the foreseeable future. The market approach was also not adopted due to the lack of comparable companies or suitable recent transactions in the waste-to-energy sector.

In light of the above, we have selected the income approach as our valuation methodology. Specifically, we have chosen the discounted cash-flow ("DCF") method, which is premised on the concept that the value of an entity is based on the present value of all future cash flows to the shareholder. To derive the present value of future cash flows, an appropriate risk-adjusted discount rate must be determined. Cash flows generated by the entity must also be forecasted, going out far enough into the future until an assumed stabilization occurs for the assets being appraised. This methodology assumes that the forecasted income or cash-flow will not necessarily be stable in the near term but will stabilize in the future.

DISCUSSION OF FINANCIAL FORECAST

Forecast Period

The original expiry date of the BOT contract as stated in the original agreement was on 27 September 2033, which consists of 2 years of construction period and 25 years of operations. As the construction for the plant was delayed and completed in late 2011, the first full year of operations was in 2012. Hence, the effective operation term of the BOT contract is 25 years starting from 2012, equating to a Forecast Period from 1 January 2014 to 27 September 2037.

Financial Forecasts in Real Terms

The forecasts provided by the management of the Target and the Instructing Party were not adjusted for inflation. The cash flows are subsequently discounted using an inflation-adjusted discount rate.

Production Capacity

As advised by management, the Target will experience a gradual ramp up in waste treatment capacity and will achieve maximum capacity from 2018 onwards.

Revenue

Total revenue of the Target consists of the sales of electricity to the province's power company and the fees received from treating household waste.

Electricity Generation: According to the "Circular on Improving the Pricing Policy for Waste Incineration-power Generation" promulgated by the National Development and Reform Commission ("NDRC") in March 2012, which stipulates a unified on-grid tariff for waste-generated electricity, the Company will receive RMB0.65 per kWh of electricity provided to the power grid, up until 280 kWh per tonne of waste treated. Once the plant reaches a stage where it generates electricity in excess of 280 kWh per tonne, the amount of on-grid electricity to receive full tariff would be 110,380 thousand kWh per year, which is a pro-rata amount based on 280 kWh per tonne as a percentage of the effective electricity generated per tonne of waste each year. Any excess electricity generated in excess of 280 kWh per tonne will earn the rate received by conventional coal-fired power plants, which varies by location. The tariff received by coal-fired electricity in the region was RMB0.50 per kWh in 2013. The amount of electricity generated per year is expected to increase by approximately 2% per annum in the long run, due to an improvement in the heating value of waste, caused by more effective pre-treatment procedures of waste.

Growth of Heating Value: As advised by management, the efficiency of heat generation through waste incineration is expected to gradually increase 3% throughout the Forecast Period, as the heating value of waste improves. This improvement is caused by a better assortment of waste, additional pre-treatment procedures and the fine-tuning of treatment processes.

Waste Treatment: The other source of revenue for the Company is from subsidies by the local government for the treatment of household waste. As of the Valuation Date, the Company has received RMB50 per tonne of waste treated.

Moreover, through our site visit and management interview, management has advised that this rate is likely to increase within several years to be in-line with the market waste treatment fee. We have concluded that it is reasonable that the treatment fee will be adjusted upward to RMB60 per tonne rate from 2017 onward.

Once the plant reaches maximum capacity in 2018, the plant will treat 365,000 tonne of waste per year for the life of the BOT contract.

Costs

As advised by management, the costs related to the business includes raw material fees, coal and operational expenses, treatment fees for leachate, slag and gas, repair and maintenance fees, wages and other administrative expenses. The costs of coal, which is used as an auxiliary fuel to raise the heating value during waste incineration, make up approximately 50% – 53% of total costs during the Forecast Period. RMB700 per tonne of coal is adopted, which is the average price of coal in China from 2007 to 2013.

Income Tax

As advised by management and in accordance with the relevant tax laws in the PRC, the Target benefits from paying the full corporate tax rate of 25% for the first six years of operations. For the first three years since generating waste treatment revenue i.e. from 2012 to 2014, the Target is exempt from paying any income taxes. The three years after, i.e. from 2015 to 2017, the Target is subject to a 50% tax reduction, meaning a tax rate of 12.5% per annum. Thereafter, corporate taxes resume to the standard rate of 25% per annum.

Capital Expenditure

According to information provided by management, capital expenditure for the maintenance of operational equipment is expensed, except for a provision for facility refurbishment at the end of the operational period.

Lack of Marketability Discount

We have adopted a lack of marketability discount of 14.4% in the equity valuation of the Target to compensate for the potential difficulty of selling the equity shares, which are not traded on a stock exchange, compared with those of the peer companies that are traded publicly in stock exchange markets.

DISCOUNT RATE

As mentioned above, the DCF methodology requires the use of an appropriate discount rate to bring future cash flows back to present value. The discount rate we have adopted is based on the weighted cost of equity capital and cost of debt capital. In particular, the cost of equity capital is calculated using the capital asset pricing model (CAPM model), while the cost of debt capital is derived from the benchmark interest rate for a 5-year long-term loan in the PRC.

Additionally, in determining the appropriate discount rate, we have also considered the effects of inflation risk, firm specific risk and market risk.

Comparable Companies

We have selected a group of comparable companies listed on stock exchanges to provide a reasonable reference in order to evaluate the industry's beta and capital structure used. Our selection criteria are that the comparable companies should:

- Primarily be engaged in waste treatment, power generation, waste water treatment, or related renewable energy concession projects;
- Have its primary operations in Mainland China; and
- Information on the peer firms must be extracted from a reliable source.

Ticker	Company name
000027 CH Equity	Shenzhen Energy Group Co Ltd
257 HK Equity	China Everbright International Ltd
735 HK Equity	China Power New Energy Development Co Ltd
895 HK Equity	Dongjiang Environmental Co Ltd

Calculation of the Weighted Average Cost of Capital (WACC)

Parameters	**As at 31 December 2013**	*Notes*
Weight of Equity	63.2%	*1*
Weight of Debt	36.8%	*1*
Unleveraged Beta	0.54	*2*
Levered Beta	0.78	*3*
Equity Risk Premium	6.3%	*4*
Risk Free Rate	4.6%	*5*
Size Premium	3.8%	*6*
Firm Specific Premium	2.0%	*7*
Cost of Equity	**15.4%**	
Cost of Debt	6.6%	*8*
Tax Rate	25.0%	*9*
After-Tax Cost of Debt	**4.9%**	
WACC	11.5%	
Inflation	3.5%	*10*
Real WACC	**7.7%**	

Notes:

1. Derived based on the debt-to-equity ratio of a set of comparable companies. Source: Bloomberg;

2. Derived based on the unlevered beta of a set of comparable companies. Source: Bloomberg;

3. Relevered beta with the Company's target capital structure derived from comparable companies;

4. Database of global equity risk premiums updated on 1 January 2014. Source: Aswath Damodaran's risk premium database;

5. Derived with reference to the yield of 10-year Chinese sovereign bonds. Source: Bloomberg;

6. Source: Ibboston SBBI 2013 Valuation Yearbook, published by Morningstar;

7. An additional 2.00% risk premium to reflect the Company's sole dependency on the waste incineration and power generation plant in Changde as well as its relatively early stage of operations;

8. The prevailing 5-year prime lending rate in the PRC. Source: Bloomberg;

9. The corporate income tax rate of China;

10. The PRC government's official target as announced during the National People's Congress.

SENSITIVITY ANALYSIS

The following table indicates the instantaneous change in the value of 100% equity interest of the Company that would arise if the key inputs for valuation as of 31 December, 2013 had changed at that date, assuming all other risk variables remained constant.

In RMB million

		Real WACC				
		6%	7%	8%	9%	10%
	1%	575	525	493	444	411
Heating	2%	620	564	528	474	437
Value	3%	657	597	559	500	461
Growth	4%	679	617	578	517	476
	5%	694	631	591	529	487

OUR INVESTIGATION AND PROCEDURE

Our investigation covers the discussion with the representatives from the Target and the Company, collecting information on the Target, operations and prospects of the business. We requested detailed information in order to conduct a detailed review and make an impartial and independent valuation of the Target's position/value. We have assumed that the data obtained in the course of the valuation, along with the opinions and representations provided to us by the Company, the Target or his agent(s) are prepared in reasonable care.

We have reviewed the following documents as provided by the management of the Target and the Instructing Party included but not limited to:

- Financial statements and management accounts of the Target;
- Financial forecasts and assumptions;
- A copy of the BOT contract of the waste-to-energy project in Changde;
- Sale and Purchase Agreement of the transaction; and
- Due Diligence reports of the Target

The factors considered in this valuation included, but were not limited to, the following:

- The demand and supply of household waste and electricity in the region;
- The price of raw materials and auxiliary fuel;
- Operation and financial risks of the Target;
- Environmental policies set by the government that pertains to the Target;
- Average operational parameters of comparable waste-to-energy plants in China;
- Operation experience of the management of the Target;
- The economic conditions of Hunan and Changde; and
- BOT operation period.

We used reasonable effort in investigating the source of information and basis of estimation regarding the financial forecast. We gathered and obtained information from the Target and sought for other publicly available evidence. But we are unable to accept any responsibility as for the reasonableness, accuracy or validity of the financial forecast.

Management of the Target is assumed to be competent, and the ownership to be in responsible hands, unless otherwise noted in this report. The quality of the management can have a direct effect on the value of the Target.

Our conclusion assumes continuation of prudent management policies over whatever period of time is reasonable and necessary to maintain the operation and integrity of the Target appraised.

Unless otherwise stated, no effort has been made to determine the possible effect, if any, on the subject because of future country, provincial or local legislations/regulations, including any environmental or ecological matters or interpretations thereof.

All facts and data set forth in our report are true and accurate to the best of our knowledge and belief. No investigation of legal fees or title of the subject has been made. During the course of the valuation, we have considered information provided by the Target. We believe we have been provided with sufficient information, of which the sources are reliable, but no further responsibility is assumed for their accuracy. We have had verbal discussions with the representatives of the Company and the Target concerning the prospective operating results of the Target. We assume that there are no hidden or unexpected conditions associated with the businesses that might adversely affect the reported value.

Site Inspection and Management Interview

We conducted a site visit to the waste-to-energy plant in Changde on 7 March 2014 and had a management interview with the Target. Through the interview, we obtained further understanding of the Target and its subsidiary including their establishment background, operations, management systems and future prospects. We have reviewed the financial forecast provided by the management of the Instructing Party based on the information obtained through the interview.

VALUATION ASSUMPTIONS

Due to the changing environment in which the Target is operating and its early stage of business, a number of operating assumptions have been prepared by the management of the Target in order to sufficiently support our concluded opinion of the Market value. The assumptions are listed as follows:

- The Target will continue to manage and operate its waste treatment and power generation business in the PRC and fulfill all legal and regulatory requirements for the continuation of its business;

- There will be no material changes in politics, laws, rules or regulations, or financial or economic or market conditions where the Target currently operates which may materially and adversely affect the operations of the waste treatment and power generation business. The future earnings as projected by the management of the Target and Instructing Party are in line with its overall development strategy, industrial development trend and national policy towards the industry;

- There will be no major changes in the current taxation law in the PRC where the Target currently operates which will materially affect the profits, that the rates of tax payable remain unchanged and that all applicable laws and regulations in relation to taxation in the PRC will be complied with;

- There will not be any adverse events beyond the management's control, including natural disasters, catastrophes, fire, explosion, flooding, acts of terrorism and epidemics that may adversely affect the operation of the Target;

- Any financial statements, service contracts, schedule of assets and their condition or other relevant information as provided by the Target and the Instructing Party in connection with the valuation is true, lawful, complete and credible;

- It is assumed that the Target will remain the same in its business scope, business model and business orientation on the basis of its existing management approach and standards;

- The supply of household waste and quality, as determined by the heating value, to the Target is stable and can ensure its need for waste incineration and power generation;

- Management's forecast for a lack of a major capital expenditure or investment during the Forecast Period is feasible and true.

GENERAL SERVICE CONDITIONS

The service(s) provided by CBRE Limited has been performed in accordance with the "RICS Valuation Professional Standards (January 2014)" and the International Valuation Standards (the "IVS"). Our compensation is not contingent in any way upon our conclusion of value. We assume, without independent verification, the accuracy, of all data provided to us. We will act as an independent contractor and reserve the right to use subcontractors. All files, working papers or documents developed by us during the course of the engagement will be our property. We will retain this data for at least six years.

This report and valuation shall be used only in its entirety and no part shall be used without making reference to the whole report. Our report is to be used only for the specific purpose stated herein and any other use is invalid. No reliance may be made by any third party without our prior written consent. You may show our report in its entirety to those third parties who need to review the information contained herein. No one should rely on our report as a substitute for their own due diligence. Except for financial reporting and auditing purposes, no reference to our name or our report, in whole or in part, in any document you prepare and/or distribute to third parties may be made without our written consent.

The valuation may not be used in conjunction with any other valuation or study. The value conclusion(s) stated in this valuation is based on the program of utilization described in the report, and may not be separated into parts. No change of any item in any of the valuation shall be made by anyone other than CBRE Limited and we shall have no responsibility for any such unauthorized change.

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 subjects in connection with this engagement. You will not be liable for our negligence. Your obligation for indemnification and reimbursement shall extend to any controlling person of CBRE Limited, including any director, officer, employee, subcontractor, affiliate or agent. In the event we are subject to any liability in connection with this engagement, regardless of legal theory advanced, such liability will be limited to the 3 times of the amount of fees we received for this engagement.

We reserve the right to include your company/firm 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. These conditions can only be modified by written documents executed by both parties.

We hereby certify that the valuer(s) is/are suitably qualified and authorised to practise as a valuer; does not have a pecuniary interest, financial or otherwise, that could conflict with the proper valuation of the subject (including the parties with whom our client is dealing, the lender or selling agent, if any); accepts instruction to value the subject only from the Instructing Party.

No opinion is intended to be expressed for matters which require legal or other specialized expertise or knowledge, beyond that customarily employed by appraisers.

Any decision to purchase, sell or transfer any interest in the Company shall be the owners' sole responsibility, as well as the structure to be utilized and the price to be accepted.

The selection of the price to be accepted requires consideration of factors beyond the information we will provide or have provided. An actual transaction involving the subject business might be concluded at a higher value or at a lower value, depending upon the circumstances of the transaction and the business, and the knowledge and motivations of the buyers and sellers at that time. In the course of our valuation, we reserve the right to review our opinion of valuation should there be any material change on the current financing position.

In all matters that may be potentially challenged by a Court or others, we do not take any responsibility for the degree of reasonableness of contrary positions that others may choose to take, nor for the costs or fees that may be incurred in the defense of our recommendations against such challenge(s). We will, however, retain our supporting work papers for your matter(s), and will be available to assist in active defense of our professional positions taken, at our then current rates, plus direct actual expenses and according to our then standard professional agreement.

This appraisal reflects only facts and conditions existing at the Valuation Date.

CONCLUSION

The conclusion of value is based on accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. While the assumptions and consideration of such matters are considered to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Company and/or CBRE Limited.

Based on the valuation methodologies adopted, the market value of 100% equity interests of KCS Changde Investments Company Limited, as at 31 December 2013 was in the sum of RMB560,000,000 (RENMINBI FIVE HUNDRED AND SIXTY MILLION), rounded to the nearest ten million RMB.

We hereby certify that we have neither present nor prospective interests in the Target, the Company or the value reported.

Yours faithfully,
For and on behalf of
CBRE Limited

Stella Law MRICS, ASA, MSC (Fin)
Business & Financial Instruments
Valuation & Advisory Services – Greater China
Director

Note: Ms Stella Law is a Member of Royal Institution of Chartered Surveyors (MRICS), chartered as Accredited Senior Appraiser of American Society of Appraisers (ASA) and holds a master degree in financial analysis from the Hong Kong University of Science and Technology (HKUST). She oversees the business valuation and financial instruments team of CBRE Valuation & Advisory Services in Greater China and possess over 9-year experience in the industry.

As the valuation report set out in Appendix V of this circular is based on discounted cash-flow method, it is deemed to be a profit forecast under the Listing Rules. The following is the text of a letter received from the independent reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong, in respect of the discounted cash flows forecast underlying the valuation on the market value of 100% equity interest of KCS Changde for the purpose of inclusion in this circular.

(A) LETTER FROM ERNST & YOUNG

EY 安永

Ernst & Young
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

安永會計師事務所
香港中環添美道 1 號
中信大廈 22 樓

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ey.com

27 March 2014

The Board of Directors
Beijing Development (Hong Kong) Limited
66/F., Central Plaza
18 Harbour Road
Wanchai
Hong Kong

Dear Sirs,

We have performed the work described below, in respect of the arithmetical accuracy of the calculations of the discounted cash flow forecast (hereinafter referred to as the "Underlying Forecast") underlying the valuation on the market value of 100% equity interest of KCS Changde Investments Company Limited ("KCS Changde") as at 31 December 2013 prepared by CBRE Limited for inclusion in the circular to shareholders of Beijing Development (Hong Kong) Limited (the "Company") dated 27 March 2014. The Underlying Forecast is regarded by The Stock Exchange of Hong Kong Limited as a profit forecast under paragraph 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

RESPECTIVE RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND REPORTING ACCOUNTANTS

It is solely the responsibility of the directors of the Company (the "Directors") to prepare the Underlying Forecast. The Underlying Forecast has been prepared using a set of assumptions (the "Assumptions"), the completeness, reasonableness and validity of which are the sole responsibility of the Directors.

It is our responsibility to draw a conclusion, based on our work on the arithmetical accuracy of the calculations of the Underlying Forecast and to present our conclusion solely to you, as a body, for the purpose of reporting under paragraph 14.62(2) of the Listing Rules and for no other purpose. We are not reporting on the appropriateness and validity of the bases and Assumptions on which the Underlying Forecast are based and our work does not constitute any valuation of KCS Changde. The Underlying Forecast does not involve the adoption of accounting policies. The Assumptions used in the preparation of the Underlying Forecast include hypothetical assumptions about future events and management actions that may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Underlying Forecast and the variation may be material. We have not reviewed, considered or conducted any work on the completeness, reasonableness and the validity of the Assumptions and thus express no opinion whatsoever thereon. Our work is more limited than for a reasonable assurance engagement, and therefore less assurance is obtained than in a reasonable assurance engagement. We also accept no responsibility to any other person in respect of, arising out of, or in connection with our work.

BASIS OF CONCLUSION

We conducted our work in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of checking the arithmetical accuracy of the calculations of the Underlying Forecast prepared based on the Assumptions made by the Directors. Our work has been undertaken solely to assist the Directors in evaluating whether the Underlying Forecast, so far as the arithmetical accuracy of the calculations is concerned, has been properly compiled in accordance with the Assumptions made by the Directors. Our work does not constitute any valuation of KCS Changde.

CONCLUSION

Based on our work described above, nothing has come to our attention that causes us to believe that the Underlying Forecast, so far as the arithmetical accuracy of the calculations of the Underlying Forecast is concerned, has not been properly compiled on the basis of the Assumptions made by the Directors.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

As the valuation report set out in Appendix V of this circular is based on discounted cash-flow method, it is deemed to be a profit forecast under the Listing Rules. The following is the text of a letter from the Board on such valuation for the purpose of incorporation in this circular.

(B) LETTER FROM THE BOARD

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

(Incorporated in Hong Kong with limited liability)
(Stock Code: 154)

27 March 2014

To the Shareholders

Dear Sirs,

VERY SUBSTANTIAL ACQUISITION
AND
ISSUE OF CONSIDERATION SHARES
IN RELATION TO
THE ACQUISITION OF ENTIRE SHAREHOLDING INTERESTS IN
AND
THE SHAREHOLDERS LOANS OF
KCS CHANGDE AND KCS TAIAN

We refer to the valuation report dated 27 March 2014 prepared by CBRE Limited in relation to the valuation on the market value of 100% equity interest of KCS Changde, which wholly owns Changde Zhonglian Environmental Electricity Co., Ltd., as at 31 December 2013 (the "**Valuation**"), the text of which is set out in Appendix V to the circular of the Company dated 27 March 2014 (the "**Circular**"). Capitalised terms used in this letter have the same meanings as those defined in the Circular unless the context otherwise requires.

The Valuation, which is prepared based on discounted cash-flow method, is regarded as a profit forecast (the "**Forecast**") under Rule 14.61 of the Listing Rules.

We have considered the letter from our reporting accountants, Ernst & Young, dated 27 March 2014 addressed to the Board regarding whether the Forecast was properly compiled on the basis of the assumptions made by the Directors so far as the arithmetical accuracy of the calculations is concerned, the text of which is set out in Appendix V to the Circular.

We are of the opinion that the Forecast underlying the Valuation has been made by the directors of the Company after due and careful enquiry.

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

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. SHARE CAPITAL OF THE COMPANY

As at the Latest Practicable Date, the number of Shares in issue was as follows:

Issued and fully paid or credited as fully paid:

Shares		*HK$*
854,960,150	Shares in issue as at the Latest Practicable Date	854,960,150
347,000,000	Number of Consideration Shares to be issued	347,000,000
1,201,960,150	Shares	1,201,960,150

Since 31 December 2012 (being the date to which the latest published audited accounts of the Group were prepared) and up to the Latest Practicable Date, 177,500,000 new Shares have been issued by the Company.

As at the Latest Practicable Date, the Company had (i) 50,920,000 share options outstanding under the share option scheme adopted by the Company on 31 May 2011; and (ii) convertible bonds with an aggregate principal amount of HK$300,580,000 and the conversion price to be initially HK$1.13. Save for such options and convertible bonds options, the Company does not have any outstanding options, warrants, derivatives and other securities convertible or exchangeable into Shares or any other derivatives as at the Latest Practicable Date. The issued Shares are listed and traded on the main board of the Stock Exchange. No part of the issued share capital of the Company is listed on any other stock exchanges.

The Consideration Shares when allotted and issued shall rank pari passu in all respects with all other Shares in issue including as regards to dividends, voting rights and return of capital.

3. DISCLOSURE OF INTERESTS

(a) As at the Latest Practicable Date, the interests and short positions of the Directors or chief executive of the Company in the Shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**"), were as follows:

Long positions in the Shares and/or underlying shares of the Company:

	Number of Shares and/or underlying shares held, capacity and nature of interest			Percentage of the Company's issued share capital
Name of director	**Directly beneficially owned**	**Through a controlled corporation**	**Total**	
Mr. E Meng	601,000	—	601,000	0.07
Mr. Zhang Honghai	4,000,000	—	4,000,000	0.47
Mr. Ng Kong Fat, Brian	1,600,000	8,792,755#	10,392,755	1.22
	6,201,000	8,792,755	14,993,755	1.76

The 8,792,755 ordinary shares are held by Sunbird Holdings Limited, a company beneficially owned by Mr. Ng Kong Fat, Brian.

Long positions in share options of the Company:

Name of Director	Number of share options directly beneficially owned
Mr. E Meng	6,770,000
Mr. Zhang Honghai	6,770,000
Mr. Wang Yong	6,770,000
Mr. Ng Kong Fat, Brian	5,500,000
Dr. Jin Lizuo	670,000
Dr. Huan Guocang	670,000
Dr. Wang Jianping	670,000
	27,820,000

These share options were granted on 21 June 2011 at an exercise price of HK$1.25 per Share. The share options may be exercised at any time commencing on 21 June 2011, and if not otherwise exercised, will lapse on 20 June 2021. The exercise price of these share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the issued Shares of the Company.

Long positions in share options in an associated corporation of the Company — Beijing Properties (Holdings) Limited:

Name of director	Number of share options directly beneficially owned		
	Note (i)	*Note (ii)*	**Total**
Mr. E Meng	5,000,000	3,600,000	8,600,000
Mr. Zhang Honghai	6,000,000	5,000,000	11,000,000
	11,000,000	8,600,000	19,600,000

Notes:

(i) These share options were granted on 28 October 2011 at an exercise price of HK$0.465 per share. These share options may be exercised at any time commencing on 28 October 2011, and if not otherwise exercised, will lapse on 27 October 2021.

(ii) These share options were granted on 1 June 2012 at an exercise price of HK$0.41 per share. These share options may be exercised at any time commencing on 1 June 2012, and if not otherwise exercised, will lapse on 31 May 2022.

Save as disclosed above, as at the Latest Practicable Date, there were no interest of the Directors or chief executives of the Company in the Shares and the underlying shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

(b) As at the Latest Practicable Date, none of the Directors and the chief executive of the Company was a director or employee of a company which has an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

(c) As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been acquired or disposed of by, or leased to, or which are proposed to be acquired or disposed of by, or leased to, any member of the Enlarged Group since 31 December 2012, being the date to which the latest published audited accounts of the Company were made up.

(d) None of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Enlarged Group.

4. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered, or proposed to enter, into any service contract with any member of the Enlarged Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

5. LITIGATION

As at the Latest Practicable Date, no member of the Enlarged Group was engaged in any litigation or arbitration of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened by or against any member of the Enlarged Group.

6. COMPETING BUSINESS

At the Latest Practicable Date, none of the Directors or their respective associates (as if each of them were treated as a controlling shareholder under Rule 8.10 of the Listing Rules) had any direct or indirect interest in a business which competes or is likely to compete with the business of the Group.

7. QUALIFICATIONS

The following sets out the qualifications of the experts who have given opinion or advice which are contained in this in this circular:

Name	**Qualification**
Ernst & Young	Certified Public Accountants
CBRE Limited	Independent professional valuer

As at the Latest Practicable Date, each of the above experts had no interest in the share capital of any member of the Group nor had any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group, and each of the above experts had no interest, either directly or indirectly, in any assets which have been, since 31 December 2012, the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and report (as the case may be) and references to its name, in the form and context in which they respectively appear.

8. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the members of the Enlarged Group within the two years immediately preceding the issue of this circular and are material:

(a) the supplemental agreement dated 29 March 2012 among the Company, the Subscriber and BEHL to extend the long stop date of the subscription agreement dated 15 September 2011 (the "**Subscription Agreement**") in relation to proposed issue and subscription for the 177,000,000 new Shares, the convertible bonds due 2018 and the standby convertible bonds due 2018 of the Company, details of which are disclosed in the announcement of the Company published on the even date;

(b) the framework agreement for Investment and Cooperation in Shanxi Domestic Garbage Incineration-Power Generation Project dated 30 May 2012 entered into between the Company and 山西國際能源集團有限公司 (Shanxi International Energy Group Co. Ltd.*), 北京北控環保工程技術有限公司 (Beijing Enterprises Holdings Environment Technology Co. Ltd.*) and 山西省環境保護基金有限公司 (Shanxi Environmental Protection Fund Co. Ltd.*) to establish long-term strategic cooperation partnership, details of which are disclosed in the announcement of the Company published on the even date;

(c) the increase of capital contract, the joint venture contract and the articles of association dated 28 June 2012 entered into between Beijing Development Environmental Protection (Haidian) Limited, a wholly owned subsidiary of the Company, The Beijing Haidian District State-Owned Capital Management Centre*(北京市海澱區國有資本經營管理中心), Beijing Zhonghai Investment Management Co.*(北京中海投資管理公司), Beijing Hairongda Investment Construction Co., Ltd.*(北京海融達投資建設有限公司) and State-Owned Properties Investment & Management Co. of Haidian District, Beijing*(北京市海澱區國有資產投資經營有限公司) in relation to the injection of capital into Beijing Lvhaineng Environmental Protection Co., Ltd.*(北京綠海能環保有限責任公司), details of which are disclosed in the announcement of the Company published on the even date;

(d) the framework agreement dated 17 September 2012 entered into between the Company and China Green Energy Limited (the "**Green Energy Framework Agreement**") pursuant to which the Group agreed to acquire 100% equity interests in Green Energy Holding Company Limited, a wholly-owned subsidiary of China Green Energy Limited for a total consideration payable for the possible acquisition preliminary estimated to be ranged from US$530 million to US$535 million and shall be settled by issuing consideration shares and/or convertible bonds of the Company, details of which are disclosed in the announcement of the Company published on the even date;

(e) the supplemental agreement dated 12 December 2012 among the Company, the Subscriber and BEHL to revise certain terms of the Subscription Agreement (as amended by the first supplemental agreement dated 25 October 2011 and the second supplemental agreement dated 29 March 2012), details of which are disclosed in the announcement of the Company published on the even date;

(f) the agreement dated 5 February 2013 entered into between Business Net Limited, a direct wholly-owned subsidiary of the Company, and QIFA Holdings Limited pursuant to which Business Net Limited conditionally agreed to sell and QIFA Holdings Limited conditionally agreed to purchase the entire issued share capital of Alison Development Limited, and the indebtedness of HK$9,891,889 for a cash consideration of HK$8,500,000, details of which are disclosed in the announcement of the Company published on the even date;

(g) the agreement dated 5 December 2013 entered into between the Company and China Green Energy Limited pursuant to which the Company and China Green Energy Limited agreed to terminate the Green Energy Framework Agreement with effect from 5 December 2013, details of which are disclosed in the announcement of the Company published on the even date;

* *For identification purpose only*

(h) the framework agreement dated 29 January 2014 entered into between the Company and the Vendor, pursuant to which the Company proposed to acquire 100% issued share capital of the Target Companies and the rights under the shareholder's loans in the sum of approximately US$72 million owing the Vendor by the Target Companies for a consideration to be satisfied partly by RMB86.79 million in cash, or the equivalent in other currency(ies), and partly by the issue to the Vendor 347,000,000 Shares at an issue price of HK$1.60 per share, details of which are disclosed in the announcement of the Company published on the even date; and

(i) the Sale and Purchase Agreement.

9. MATERIAL ADVERSE CHANGES

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2012, being the date to which the latest published audited accounts of the Company were made up.

10. GENERAL

(a) The registered office of the Company is situated at 66th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

(b) The share registrar of the Company is Tricor Tengis Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(c) The company secretary of the Company is Mr. Wong Kwok Wai, Robin, who is a fellow member of the Association of Chartered Certified Accountants and an associate member of The Hong Kong Institute of Certified Public Accountants.

(d) This circular has been printed in English and Chinese, in the event of inconsistency, the English version shall prevail.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the registered office of the Company at 66/F., Central Plaza, 18 Harbour Road, Wanchai, Hong Kong during normal business hours on any weekdays other than public holidays up to and including 15 April 2014:

(a) the articles of association of the Company;

(b) the annual reports of the Group for the two financial years ended 31 December 2011 and 31 December 2012;

(c) the accountants' report on the KCS Taian Group, the text of which is set out in Appendix IIA to this circular;

(d) the accountants' report on the KCS Changde Group, the text of which is set out in Appendix IIB to this circular;

(e) the report of Ernst & Young on the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix IV to this circular;

(f) the business valuation report of KCS Changde as set out in Appendix V to this circular;

(g) the letter from Ernst & Young on forecast underlying the valuation on the market value of KCS Changde, the text of which is set out in Appendix V to this circular;

(h) the written consents referred to in paragraph headed "Qualifications" of this appendix;

(i) the material contracts referred to in the paragraph headed "Material Contracts" in this appendix; and

(j) this circular.

北京發展(香港)有限公司

BEIJING DEVELOPMENT (HONG KONG) LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 154)

NOTICE OF THE EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**") of Beijing Development (Hong Kong) Limited (the "**Company**") will be held at 66th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Tuesday, 15 April 2014 at 11:00 a.m. for the purpose of considering and, if thought fit, passing the following resolution of the Company:

ORDINARY RESOLUTION

"**THAT**:

(a) the entry by the Company into the Sale and Purchase Agreement (as defined in the circular to the shareholders of the Company dated 27 March 2014 (the "**Circular**")) (a copy of which has been produced at the meeting and signed by the chairman of the meeting for identification purposes), the terms thereof and transactions contemplated thereunder (including but not limited to the allotment and issue to KCS Green Energy International (Group) Investments Company Limited (or its nominee as it may direct) of the Consideration Shares (as defined in the Circular) pursuant to the Sale and Purchase Agreement), be and are hereby approved, ratified and confirmed; and

(b) the directors of the Company (the "**Directors**") be and are generally and unconditionally authorised to prepare and execute all documents and to do all things as they consider necessary, expedient and appropriate to effect and implement the Sale and Purchase Agreement and transactions contemplated thereunder or incidental thereto."

By order of the Board of
Beijing Development (Hong Kong) Limited
Wong Kwok Wai, Robin
Company Secretary

Hong Kong, 27 March 2014

Notes:

1. A member entitled to attend and vote at the EGM is entitled to appoint a proxy (or at most two proxies) to attend and, on a poll, vote on his/her behalf. A proxy need not be a member of the Company.

2. To be valid, the form of proxy and the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power of attorney or authority, must be lodged with the Company's share registrar, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before either the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude a shareholder from attending and voting in person at the EGM or any adjournment thereof if the shareholder so desires.

3. As at the date hereof, the executive Directors are Mr. E Meng, Mr. Zhang Honghai, Mr. Ke Jian, Mr. Wang Yong, Ms. Sha Ning, Ms. Qin Xuemin and Mr. Ng Kong Fat, Brian, and the independent non-executive Directors are Dr. Jin Lizuo, Dr. Huan Guocang, Dr. Wang Jianping and Prof. Nie Yongfeng.