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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in any 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 other professional adviser.

**If you have sold or transferred** all your shares in Integrated Waste Solutions Group Holdings Limited, you should at once hand this circular to the purchaser, the transferee or to the bank, 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 transferee.

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**Integrated Waste Solutions Group Holdings Limited**

**綜合環保集團有限公司**

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

**(stock code: 923)**

**MAJOR TRANSACTION**  
**ACQUISITION OF SHARES IN THE TARGET COMPANY**

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## DEFINITIONS

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

“Acquisition”	the acquisition by IWS Engineering from the Vendor of the Sale Shares
“Board”	the board of Directors
“Business Day”	a day (other than a Saturday) on which licensed banks are open for general business in Hong Kong
“close associate(s)”	has the meaning ascribed to it under the Listing Rules
“Company”	Integrated Waste Solutions Group Holdings Limited, (stock code: 923), a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“Completion”	completion of the Acquisition in accordance with the terms of the SP Agreement
“Completion Date”	the third Business Day (or such other date as the Vendor and IWS Engineering may agree in writing) after the date on which all the conditions precedent contained in the SP Agreement have been satisfied or (where applicable) waived in full
“connected person(s)”	has the meaning as ascribed to it under the Listing Rules
“Consideration”	HK\$69,000,000 being the total consideration to be paid by IWS Engineering to the Vendor for the Acquisition
“CTF Nominee”	Chow Tai Fook Nominee Limited
“Deed of Adherence”	the deed of adherence to be executed at Completion between IWS Engineering, Dugong and the Target Company to make IWS Engineering a party to the Shareholders’ Agreement as a shareholder of the Target Company
“Deed of Assignment”	the deed of assignment to be executed by IWS Engineering, the Vendor and the Target Company at Completion, pursuant to which, among others, IWS Engineering will be assigned, among others, all the Vendor’s rights, interests, title, claims and benefits in and to, and its obligations under, the Shareholder’s Loan Agreement
“Director(s)”	director(s) of the Company
“Dugong”	Dugong Limited, a company incorporated in Hong Kong with limited liability

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## DEFINITIONS

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“Enlarged Group”	the Group as enlarged by the Acquisition
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Third Party”	a third party independent of the Company and its connected persons, and “Independent Third Parties” shall be construed accordingly
“IWS Engineering”	IWS Engineering Company Limited, a company incorporated in Hong Kong with limited liability and a wholly owned subsidiary of the Company
“Kaifeng Dagong”	Dugong Environment Resource (Kaifeng) Co., Ltd.* (大公環境資源(開封)有限公司), a limited liability company established on 21 November 2019 in the PRC
“Latest Practicable Date”	24 December 2019, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Leyuan New Material”	Leyuan New Material Technology Co., Ltd.* (連雲港樂園新材料科技有限公司), a limited liability company established on 26 December 2008 in the PRC
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	31 March 2020 or such later date as may be agreed in writing between the Vendor and IWS Engineering from time to time
“Lvrn”	Lianyungang Lvrn Environmental Protection Technology Co., Ltd.* (連雲港綠潤環保科技有限公司), a sino-foreign equity joint venture enterprise established on 16 November 2015 in the PRC
“Lvrn Group”	Lvrn and Leyuan New Material
“Lvrn Sellers”	four PRC individuals who in aggregate owned the remaining 49% equity interest in Lvrn as at the Latest Practicable Date
“PRC”	the People’s Republic of China excluding, for the purpose of this circular, Hong Kong, the Macau Special Administration Region of the People’s Republic of China and Taiwan

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## DEFINITIONS

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“PRC GAAP”	the generally accepted accounting principles of the PRC
“Prestige Safe”	Prestige Safe Limited
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Shares”	40,000 issued shares in the Target Company legally and beneficially owned by the Vendor
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Share(s)
“Shareholder’s Loan Agreement”	the loan agreement dated 11 September 2019 entered into between the Vendor as lender and the Target Company as borrower in relation to the provision of a shareholder’s loan in the maximum principal amount of RMB28,800,000 (equivalent to approximately HK\$32,256,000) by the Vendor to the Target Company
“Shareholders’ Agreement”	the shareholders’ agreement dated 11 September 2019 entered into between Dugong and the Vendor as shareholders and the Target Company as subject company for the purposes of, among others, regulating certain affairs of the Target Group and setting out certain rights of the shareholders of the Target Company
“Smart On”	Smart On Resources Ltd.
“SP Agreement”	the conditional sale and purchase agreement dated 11 December 2019 between the Vendor and IWS Engineering in relation to, among others, the Acquisition
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	Dugong IWS HAZ Limited, a company incorporated in Hong Kong with limited liability on 15 April 2019 and owned as to 60% by Dugong and 40% by the Vendor as at the Latest Practicable Date
“Target Group”	the group of companies comprising the Target Company, Lvrn, Leyuan New Material and Kaifeng Dagong

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## DEFINITIONS

“Vendor”	Intelligent Goal Holdings Limited, a company incorporated in the British Virgin Islands with limited liability
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“%” per cent.

*In this circular, for the purpose of illustration only, amounts quoted in RMB have been converted into HK\$ at the rate of RMB1.00 to HK\$1.12, and vice versa. Such exchange rate has been used, where applicable, for the purposes of illustration only and do not constitute a representation that any amounts were or may have been exchanged at such rate or any other rates or at all.*

\* For identification purposes only

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## LETTER FROM THE BOARD

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### **Integrated Waste Solutions Group Holdings Limited**

### **綜合環保集團有限公司**

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

**(stock code: 923)**

*Executive Directors:*

Mr. Lam King Sang  
Mr. Tam Sui Kin, Chris

*Non-executive Directors:*

Mr. Cheng Chi Ming, Brian (*Chairman*)  
Mr. Tsang On Yip, Patrick  
Mr. Lau Sai Cheong  
Mr. Lee Chi Hin, Jacob

*Independent non-executive Directors:*

Mr. Chow Shiu Wing, Joseph  
Mr. Wong Man Chung, Francis  
Mr. Chan Ting Bond, Michael

*Registered office:*

Clifton House  
75 Fort Street  
P.O. Box 1350  
Grand Cayman KY1-1108  
Cayman Islands

*Principal place of business in*

*Hong Kong:*

Integrated Waste Solutions Building  
8 Chun Cheong Street  
Tseung Kwan O Industrial Estate  
New Territories  
Hong Kong

31 December 2019

*To the Shareholders*

Dear Sir or Madam

### **MAJOR TRANSACTION ACQUISITION OF SHARES IN THE TARGET COMPANY**

#### **INTRODUCTION**

Reference is made to the announcement of the Company dated 11 December 2019 in relation to, among others, the Acquisition. On 11 December 2019, IWS Engineering, a wholly owned subsidiary of the Company, entered into the SP Agreement with the Vendor, pursuant to which the Vendor has conditionally agreed to sell, and IWS Engineering has conditionally agreed to purchase, the Sale Shares representing 40% of the total number of issued shares in the Target Company at the Consideration of HK\$69,000,000 in accordance with the terms and conditions of the SP Agreement.

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## LETTER FROM THE BOARD

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The purpose of this circular is to provide you with, among others, (i) further details of the SP Agreement and the transactions contemplated thereunder; (ii) financial information and other information of the Group; (iii) financial information and other information of the Target Group; (iv) the unaudited pro forma financial information of the Enlarged Group; (v) the valuation report on the Lvrn Group; (vi) letter from KPMG on the discounted cash flows in relation to the valuation of the Lvrn Group and letter from Halcyon Capital Limited in relation to the valuation of the Lvrn Group; and (vii) the property valuation report of the Lvrn Group.

### SP AGREEMENT

The major terms of the SP Agreement are set out below:

**Date:** 11 December 2019

**Parties:** (i) the Vendor, as vendor  
(ii) IWS Engineering, a wholly owned subsidiary of the Company, as purchaser

To the best knowledge, information and belief of the Directors after making reasonable enquiries, the Vendor, the Target Company and their respective ultimate beneficial owners are Independent Third Parties.

### Subject matters

The Sale Shares legally and beneficially held by the Vendor, representing 40% of the total number of issued shares in the Target Company, free from all encumbrances and together with all rights attaching thereto as from the Completion Date, including but not limited to all dividends paid, declared or made the record date for the entitlement of which falls on or after the Completion Date.

The Sale Shares rank pari passu in all respects among themselves and with the other existing issued shares in the Target Company.

### Consideration

The total Consideration is HK\$69,000,000, which shall be paid by IWS Engineering to the Vendor in cash at Completion.

The Consideration was determined after arm's length negotiations between IWS Engineering and the Vendor with reference to, among other things, (i) the valuation of the fair value of the 100% equity interest of the Lvrn Group of RMB304,000,000 (equivalent to approximately HK\$340,480,000) as at 30 June 2019 by an independent valuer based on an income approach; (ii) the financial performance of the Target Group; and (iii) the business development and the prospects of the Target Group.

The Directors (including the independent non-executive Directors) consider that the Consideration is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.



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## LETTER FROM THE BOARD

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The Consideration will be funded by the internal resources of the Group.

In order to assess the fairness and reasonableness of the Consideration based on the above criteria, the Company engaged Shanghai Rodl & Partner, Certified Public Accountants Partnership (the “**Valuer**”), an independent valuer, to conduct a valuation (the “**Valuation**”) on the fair value of the 100% equity interest of the Lvrn Group.

As stated in the valuation report (the “**Valuation Report**”) issued by the Valuer in relation to the Valuation as set out in Appendix IV to this circular, the fair value of the 100% equity interest of the Lvrn Group as at 30 June 2019 was RMB304 million. It is stated in the Valuation Report that the Valuation was assessed using discounted cash flow method under the income approach. For the purpose of the Valuation, the Valuer has concluded the Valuation based on the future cash flow of the Lvrn Group by relying on the available information and presently prevailing operating conditions of the business and taking into consideration, among others, the following factors:

- the market and the business prospect of the Lvrn Group;
- the general economic outlook and the outlook for the specific industry affecting the business of the Lvrn Group;
- the current financial and operational information of the Lvrn Group;
- the historical performance of the comparable companies;
- the market expectation and required rate of return for similar business; and
- the assumptions as stated in the assumptions of the Valuation Report in Appendix IV of this Circular.

After reviewing in detail the Valuation Report and the underlying valuation methodology and assumptions, the Board considered that the Consideration (i.e. HK\$69,000,000), representing a discount of approximately 0.66% to the fair value of the 40% equity interest of the Target Group (i.e. RMB62,016,000 (equivalent to approximately HK\$69,458,000) being the effective 20.4% interest in the valuation of the Lvrn Group of RMB304,000,000 (equivalent to approximately HK\$340,480,000)), is fair and reasonable and in the interest of the Company as a whole.

As mentioned above, the Valuation has adopted income-based approach and discounted cash flow method. As such, the Valuation constitutes a “profit forecast” under Rule 14.61 of the Listing Rules.

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## LETTER FROM THE BOARD

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The principal assumptions, including commercial assumptions, on which the Valuation has been based, are as follows:

- 1) there will be no major changes in the existing political, legal, fiscal and economic conditions in which the Lvr run Group carries on their businesses;
- 2) there will be no major changes in the current taxation law in the country where the Lvr run Group operates, that the rates of tax payable will remain unchanged and that all applicable laws and regulations will be complied with;
- 3) there will be no material changes in the industry in which the Lvr run Group involve that would materially affect the revenues, profits, cash flows attributable to the Lvr run Group, e.g. the sales price will be stable in the forecast period;
- 4) the Lvr run Group as well as their partners will obtain the necessary licenses and approvals to provide their service;
- 5) market situation, such as exchange rates and interest rates will not differ materially from those presently prevailing;
- 6) the availability of finance will not be a constraint on the forecasted growth of operations of the Lvr run Group;
- 7) the Lvr run Group will successfully maintain their competitiveness and market share through optimising the utilization of their resources and expanding their marketing networks;
- 8) the Lvr run Group can keep in line with the latest development of the industry so that their competitiveness and profitability can be sustained;
- 9) the Lvr run Group will utilize and maintain their current operational, administrative and technical facilities to maintain their sales;
- 10) the Lvr run Group will be able to secure funds to repay their debts when they fall due;
- 11) the Lvr run Group will retain and have competent management, key personnel, technical staff and stable work locations to support their ongoing operations;
- 12) industry trends and market conditions for related industries will not deviate materially from economic forecasts;
- 13) the projection has been prepared on a reasonable basis, reflecting estimates which have been arrived at after due and careful consideration;
- 14) no perpetual growth rate is adopted, due to the limits of capacity at 50,000 tons of hazardous waste treatment without considering further expansions; and
- 15) no event of force majeure, e.g. accidents, shall take place among the forecast period.

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## LETTER FROM THE BOARD

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KPMG, the reporting accountants of the Company, has examined the calculations of the discounted future cash flows of the Lvrn Group in which the Valuation was based. The Board has reviewed the above principal assumptions and confirmed that the forecast has been made after due and careful enquiry. On the basis of the foregoing, Halcyon Capital Limited is of the opinion that the forecast has been made after due and careful enquiry by the Directors. A letter from KPMG and a letter from Halcyon Capital Limited are included in Appendix IV to this circular.

### Conditions Precedent

Completion is conditional upon the satisfaction or (where applicable) waiver of the following:

- (a) (if required) all requisite waivers, consents and approvals from any relevant governments or regulatory authorities or other relevant third parties in connection with the transactions contemplated by the SP Agreement having been obtained;
- (b) Dugong having provided to the Vendor a letter duly signed by Dugong and issued to the Vendor that it has consented to the sale and purchase of the Sale Shares as contemplated under the SP Agreement, in the form and substance satisfactory to IWS Engineering;
- (c) IWS Engineering being satisfied with the results of the due diligence exercise (whether legal, accounting, business, financial operational or other aspects that IWS Engineering considers relevant) on the Target Group and its business, assets, liability, activities, operations, prospects and other status which IWS Engineering, its agents or professional advisers think necessary and appropriate to conduct;
- (d) (if required) the approval of the SP Agreement and all the transactions contemplated thereunder having been obtained from the Shareholders by way of either (1) the passing of resolution(s) in general meeting of the Company; or (2) if allowed under the Listing Rules, written approval(s) of the Shareholder(s) acceptable to the Stock Exchange;
- (e) (if required) the Company having published an announcement on the website of the Stock Exchange and issued to the Shareholders a circular on, among other things, the SP Agreement and the transactions contemplated thereunder in accordance with the requirements of Chapter 14 of the Listing Rules;
- (f) the representations, warranties and undertakings given by the Vendor under the SP Agreement remaining to be true, accurate, and not misleading and there having been no breach in any material respect by the Vendor of its obligations under the SP Agreement; and

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## LETTER FROM THE BOARD

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- (g) no event having occurred which will or is likely to result in any change which has a material and adverse effect on the financial position, business or property, results of operations, business prospects or assets of the Target Group as a whole.

The Vendor shall use all reasonable endeavours to satisfy the conditions precedent set out in sub-paragraphs (a) (to the extent concerning the Vendor), (b), (f) and (g) above. IWS Engineering shall use all reasonable endeavours to satisfy the conditions precedent set out in sub-paragraphs (a) (to the extent concerning IWS Engineering), (d) and (e) above.

IWS Engineering may at its absolute discretion at any time waive in writing any of the conditions precedent set out in sub-paragraphs (c), (f) and (g) above. Save as aforesaid, none of the conditions precedent may be waived.

If all the conditions precedent shall not have been fulfilled (or, where applicable, waived) on or before the Long Stop Date, the obligations of the parties to the SP Agreement to proceed with and complete the Acquisition shall, unless the SP Agreement otherwise provides, immediately cease and terminate and of no further effect, and no party to the SP Agreement shall have any claim against or liability to the other, save in respect of any antecedent breaches.

As at the Latest Practicable Date, the conditions precedent set out in sub-paragraphs (b) and (d) had been fulfilled.

### **Completion**

Completion will take place on the third Business Day after the date on which all the conditions precedent set out in the paragraph headed “Conditions precedent” above have been fulfilled (or, where applicable, waived) in full or at such later date as may be agreed by the Vendor and IWS Engineering in writing.

At Completion, IWS Engineering will:

- (a) execute the Deed of Adherence to make itself a party to the Shareholders’ Agreement as a shareholder of the Target Company; and
- (b) be assigned, among others, all the Vendor’s rights, interests, title, claims and benefits in and to, and its obligations under, the Shareholder’s Loan Agreement pursuant to the Deed of Assignment to be executed by IWS Engineering, the Vendor and the Target Company at Completion.

Particulars of the Shareholders’ Agreement and the Shareholder’s Loan Agreement are set out in the sections headed “Shareholders’ Agreement” and “Shareholder’s Loan Agreement” below, respectively.

Upon Completion, the Target Company will be recognised as an associate of the Company.

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## LETTER FROM THE BOARD

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### SHAREHOLDERS' AGREEMENT

- Parties:**
- (i) the Vendor, as a shareholder of the Target Company
  - (ii) Dugong, as a shareholder of the Target Company
  - (iii) the Target Company, as the subject company

The Shareholders' Agreement contains provisions regulating certain affairs of the Target Group and setting out certain rights of the shareholders of the Target Company, including:

- (a) its scope of business;
- (b) its dividend policy;
- (c) the composition of the board of directors – the board of the Target Company shall comprise five directors, three of whom to be nominated by Dugong and two by the Vendor;
- (d) reserved matters at the Target Company level and its subsidiaries level requiring approval by all directors nominated by Dugong and the Vendor;
- (e) pre-emptive rights when the Target Company plans to issue new shares;
- (f) right of first refusal of a shareholder when the other shareholder intends to sell its shares;
- (g) drag-along right of the majority shareholder;
- (h) tag-along right of the shareholders;
- (i) in the event of a change of control of a shareholder, right of the other shareholder to sell its shares to that shareholder or to buy the shares of that shareholder, as a protective and remedial measures; and
- (j) deadlock resolution.

### Net income benchmark

According to the terms of the Shareholders' Agreement, in the event that the aggregate net income (audited in accordance with the PRC GAAP) of Lvr run for the three years ending 31 December 2021 (the **"Agreed Period"**) is less than RMB90,000,000 (equivalent to approximately HK\$100,800,000), the Vendor will receive cash payment from Dugong out of the distributions to be made by the Target Company to Dugong and Dugong will pay or procure the Target Company to pay such sum to the Vendor in the amount calculated in accordance with the following formula:

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## LETTER FROM THE BOARD

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$(\text{RMB}90,000,000 - A) \times 51\% \times 40\%$  (less tax, expenses and interests (if any))

where A is the aggregate audited net income of Lvrn during the Agreed Period. If Lvrn incurs net loss during the Agreed Period, A shall be taken as zero (0) in the formula.

Pursuant to the terms of the Shareholders' Agreement, any person (other than the Vendor) who will become holder of any shares in the Target Company which are held by Dugong as at the date of the Shareholders' Agreement shall assume Dugong's obligation to pay the above sum or any balance thereof (as the case may be) to the Vendor.

At Completion, IWS Engineering will be assigned the Vendor's rights to receive any sums to which the Vendor may become entitled as mentioned above pursuant to the Deed of Adherence.

### SHAREHOLDER'S LOAN AGREEMENT

- Parties:**
- (i) the Vendor, as lender
  - (ii) the Target Company, as borrower

Pursuant to the Shareholder's Loan Agreement, the Vendor has agreed to make a shareholder's loan in the maximum amount of RMB28,800,000 (equivalent to approximately HK\$32,256,000), which may be drawn in two tranches of RMB14,400,000 (equivalent to approximately HK\$16,128,000) each within 18 months from the date of the Shareholder's Loan Agreement. Each tranche is due to be repaid as to RMB4,800,000 (equivalent to approximately HK\$5,376,000) on each of the first, second and third anniversary of the date of its drawdown, subject to the Target Company's right to extend provided that all outstanding principal amount shall be repaid no later than the third anniversary of the date of its drawdown.

The shareholder's loan will carry interest at 5% per annum, payable annually in arrears, subject to the Target Company's right to extend provided that all outstanding interest shall be paid no later than the third anniversary of the date of drawdown of the tranche to which such interest relates. Any interest so extended shall accrue interest as if it were principal amount of the shareholder's loan.

The shareholder's loan to be provided under the Shareholder's Loan Agreement shall be primarily used by the Target Group for the financing requirements of further expansion of a hazardous waste handling and processing project in Jiangsu Province, the PRC run by Lvrn and/or any other hazardous waste handling and processing projects in the PRC.

At Completion, IWS Engineering will be assigned all the Vendor's rights, interests, title, claims and benefits in and to, and its obligations under, the Shareholder's Loan Agreement pursuant to the Deed of Assignment.

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## LETTER FROM THE BOARD

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### REASONS FOR AND BENEFITS OF ENTERING INTO THE SP AGREEMENT

The Group is principally engaged in the trading of recovered paper and materials, provision of confidential materials destruction services, manufacturing of recycling plastic pellets, and provision of logistics services.

The Directors have been proactive in seeking appropriate investment opportunities to increase the return of the shareholders of the Company. In deciding to acquire a minority shareholding in the Target Company, the Directors have taken into account, among others: (i) the Acquisition can bring in immediate share of profit contribution to the Group; (ii) the Target Company is a joint investment platform through which the Group is able to invest in hazardous waste treatment business in the PRC; and (iii) the Target Group is engaged in the environmental protection business which is encouraged under the PRC national policy and the Acquisition is in line with the Group's overall business focus and strategy. The Directors consider the entering into of the SP Agreement as an opportunity to expand its investment footprint into the PRC. So far, the Group's existing business activities are all concentrated in Hong Kong. With the Acquisition, the Group is able to extend (through its investment in the Target Company) the geographical coverage of its investment into the PRC (including Lianyungang City, Jiangsu Province and Kaifeng City, Henan Province) in hazardous waste treatment business.

Based on the above, the Directors (including the independent non-executive Directors) consider that the terms of the SP Agreement, the Shareholders' Agreement and the Shareholder's Loan Agreement are fair and reasonable, the transactions contemplated thereunder are on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

### INFORMATION ON THE VENDOR

The Vendor is a company incorporated in the British Virgin Islands with limited liability. The ultimate shareholder of the Vendor is Mr. Ho Wing Keung, William, an Independent Third Party with diverse investments. The principal activity of the Vendor is investment holding.

### INFORMATION ON DUGONG

Dugong is a company incorporated in Hong Kong with limited liability. The ultimate shareholders of Dugong are Dr. Axel Schweitzer and Dr. Eric Schweitzer, who are joint Chief Executive Officers of one of the leading recycling and environmental services companies as well as raw material providers worldwide. The principal activity of Dugong is investment holding.

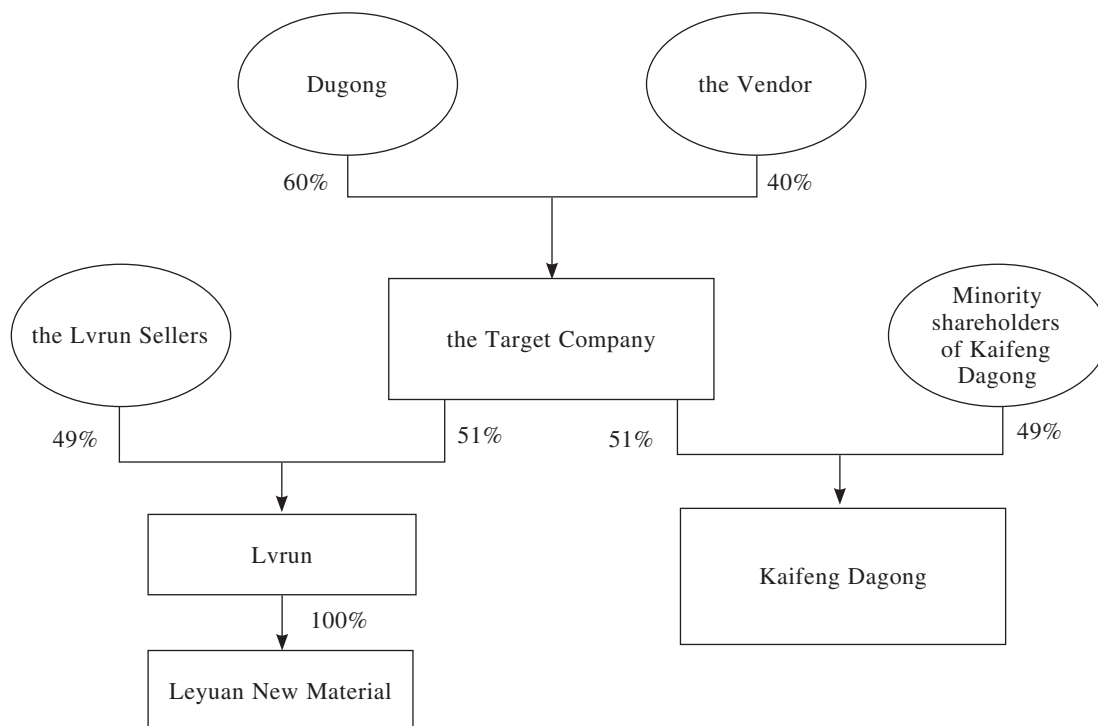
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## LETTER FROM THE BOARD

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### INFORMATION ON THE TARGET GROUP

Below is a chart showing the structure of the Target Group as at the Latest Practicable Date:



The Target Company is a company incorporated in Hong Kong with limited liability on 15 April 2019. The principal activity of the Target Company is investment holding. As at the Latest Practicable Date, the Target Company had 100,000 shares in issue, held as to 60,000 shares (60%) by Dugong and 40,000 shares (40%) by the Vendor.

Lvrn is a sino-foreign equity joint venture enterprise established in the PRC. As at the Latest Practicable Date, it was held as to 51% by the Target Company and 49% by the Lvrn Sellers. The total investment amount and the registered capital (which has been contributed in full) of Lvrn are RMB159,000,000 and RMB63,600,000 respectively. The approved business scope of Lvrn is handling of hazardous waste (operated in accordance with license); technology development and application of pollution control and recycling economies; design, construction and consulting services of environmental engineering; self-operated and agent import and export of various commodities and technologies, except the good and technologies operated by limited corporations of the state and prohibited for import and export (projects subject to approval according to law may be operated only after approval by relevant authorities).



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## LETTER FROM THE BOARD

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Leyuan New Material is a limited liability company established in the PRC. As at the Latest Practicable Date, it was a direct wholly owned subsidiary of Lvrn. The registered capital of Leyuan New Material is RMB46,960,000 (which has been contributed in full). Leyuan New Material is principally engaged in holding the properties of the Lvrn Group.

The Lvrn Group held the Hazardous Chemical Operation License (危險廢物經營許可証) issued by the Lianyungang Municipal Environmental Protection Bureau. Under the license, it can dispose and utilize a range of specified hazardous chemicals and is principally engaged in the provision of hazardous waste treatment services to industrial customers. The license expired in early December 2019 and, as at the Latest Practicable Date, the Lvrn Group was in the process of renewal of the license. Completion will not be proceeded with before the license is successfully renewed as IWS Engineering will only consider the condition precedent set out in sub-paragraph (c) in the paragraph headed “Conditions precedent” in this letter above fulfilled when the license is successfully renewed. Nor will IWS Engineering waive such condition precedent.

Hazardous waste are collected from the customers’ sites and delivered to the Lvrn Group’s plant facility for treatment. The hazardous wastes collected are treated with the physical/chemical methodology to recycle the heavy metals in compound form and producing gypsum as a by-product to sell (which is used to produce construction material).

With the strict implementation of environmental rules and regulations in recent years, there had been notable increase in the annual growth rate of hazardous waste in Jiangsu Province and the current total treatment capacity is falling short of this growing market demand and which had been resulted in the increase of local hazardous waste treatment prices.

The Lvrn Group serves its customers in the Jiangsu Province and is well positioned to capture the potential growth in the region. To meet with the expected future demand, the Lvrn Group is undergoing a Phase II expansion plan to increase its treatment capacity. It is planned that such expansion will provide an additional treatment capacity of 100,000 metric tons per annum. As at the Latest Practicable Date, Phase II expansion was at the stage of land acquisition involving a site area of around 92,700 square metres of additional land which is adjacent to the existing plant site.

In addition, to maintain its growth momentum, the Target Group had recently established its new footprint in Kaifeng City, Henan Province to construct a hazardous waste treatment line and an incineration facility to deliver comprehensive hazardous waste treatment services.

Kaifeng Dagong is a sino-foreign joint equity enterprise established in the PRC. As at the Latest Practicable Date, it was held as to 51% by the Target Company, as to 30% by Henan Yicheng Environmental and Technology Co., Ltd. and as to 19% by Kaifeng Development Investment Group Co., Ltd. The registered capital of Kaifeng Dagong is RMB90,000,000 (which is yet to be contributed). Kaifeng Dagong is principally engaged in hazardous waste collection, treatment and disposal, production and provision of heat, development of environmental technology, technology promotion service, technology consulting. The approval of the establishment of Kaifeng Dagong was granted by the relevant PRC authority on 21 November 2019. As at the Latest Practicable Date, no business activities has been carried out since its date of establishment.

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## LETTER FROM THE BOARD

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Apart from being a new source of income stream to the Group, the Acquisition allows the Group to invest in a new segment of the environmental business with growth potential and to extend the Group's investment geographically.

To the best knowledge, information and belief of the Directors after making reasonable enquiries, the Lvrn Sellers, Dugong, the minority shareholders of Kaifeng Dagong and their respective ultimate beneficial owners are Independent Third Parties.

### FINANCIAL INFORMATION OF THE TARGET GROUP

The Target Company is an investment holding company and was incorporated in Hong Kong on 15 April 2019. Save for the investment in the Lvrn Group, it has not carried on any business since the date of its incorporation. During the period from its date of incorporation to 30 June 2019, the Target Company has a loss of HK\$56,850, which was mainly related to the administrative expenses incurred during the period.

Set out below is a summary of the audited consolidated financial information of the Lvrn Group for the two years ended 31 December 2017 and 2018 and the six months ended 30 June 2019:

	<b>For the year ended 31 December 2017 (audited) RMB'000 approximately</b>	<b>For the year ended 31 December 2018 (audited) RMB'000 approximately</b>	<b>For the six months ended 30 June 2019 (audited) RMB'000 approximately</b>
Revenue	43,019	70,734	54,166
Profit before taxation	13,056	21,154	15,395
Profit after taxation	13,056	21,154	15,395
	<b>As at 31 December 2017 (audited) RMB'000 approximately</b>	<b>As at 31 December 2018 (audited) RMB'000 approximately</b>	<b>As at 30 June 2019 (audited) RMB'000 approximately</b>
Net assets	11,098	95,010	110,406

### IMPLICATIONS UNDER THE LISTING RULES

As more than one of the applicable percentage ratios as calculated under Rule 14.07 of the Listing Rules in respect of the Acquisition exceed 25% but all of them are less than 100%, the Acquisition constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting, announcement and shareholders' approval requirements thereunder.

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## LETTER FROM THE BOARD

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To the best knowledge, information and belief of the Directors, as at the Latest Practicable Date, neither the Target Company, the Vendor, Dugong nor any of their respective close associates held any Shares and therefore no Shareholder is required to abstain from voting on the proposed resolution(s) to approve the SP Agreement and the transactions contemplated thereunder in general meeting of the Shareholders. As at the Latest Practicable Date, CTF Nominee, Smart On and Prestige Safe were holding 1,530,601,835 Shares, 732,550,000 Shares and 479,362,193 Shares respectively, representing in aggregate approximately 56.86% of the issued share capital of the Company. Smart On is an indirect wholly owned subsidiary of CTF Nominee; whereas Prestige Safe and CTF Nominee are direct subsidiaries of Chow Tai Fook (Holding) Limited. Therefore the Directors consider that CTF Nominee, Smart On and Prestige Safe constitute a closely allied group of Shareholders within the meaning of Rule 14.45 of the Listing Rules. Accordingly, the Company has obtained written approvals for the Acquisition from CTF Nominee, Smart On and Prestige Safe to dispense with the holding of a general meeting of the Company pursuant to Rule 14.44 of the Listing Rules.

### ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in Appendices I to VI to this circular.

Yours faithfully  
On behalf of the Board  
**Integrated Waste Solutions Group Holdings Limited**  
**Cheng Chi Ming, Brian**  
*Chairman*

**1. THREE-YEAR FINANCIAL INFORMATION OF THE GROUP**

Details of the financial information of the Group for the three years ended 31 March 2019, respectively, have been set out in the Company's annual reports for the year ended 31 March 2017 (from pages 55 to 127), the year ended 31 March 2018 (from pages 57 to 119) and the year ended 31 March 2019 (from pages 59 to 127).

All annual reports of the Company have been posted on the website of the Company at [www.iwsggh.com](http://www.iwsggh.com) and of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).

**2. INDEBTEDNESS STATEMENT**

As at the close of business on 30 November 2019, being the latest practicable date for the purpose of ascertaining the indebtedness of the Group prior to the printing of this circular, the Group had:

**Lease liabilities**

After the initial recognition of right-of-use assets and lease liabilities as at 1 April 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liabilities over the lease term. As at 30 November 2019, the Group has lease liabilities with outstanding principal amount of approximately HK\$2,662,000.

Save as aforesaid, and apart from intra-group liabilities, at the close of business on 30 November 2019, the Group did not have any debt securities issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

**3. WORKING CAPITAL SUFFICIENCY OF THE GROUP**

The Directors are of the opinion that, after taking into account the Acquisition, the working capital available to the Group is sufficient for the Group's requirements for at least the next 12 months from the date of this circular in the absence of any unforeseen circumstances.

**4. FINANCIAL AND TRADING PROSPECT OF THE GROUP**

As mentioned under the paragraph headed “Reasons for and benefits of entering into the SP Agreement” under the section headed “Letter from the Board” in this circular, the Directors have been proactive in seeking appropriate investment opportunities to increase the return of the shareholders of the Company. The Company strives to expand its businesses both geographically and horizontally and is of the view that entering into the hazardous waste treatment sector shall initiate a new business segment for the Company and broaden the Company’s business horizon, which can enable the Group to grow and achieve improvements in its financial position.

Looking ahead, the Directors expect the business environment to remain challenging and difficult, but are cautiously optimistic towards the overall outlook of the Group. Not only the management will continue to explore and identify suitable investment opportunities to sustain long-term growth, but also will streamline the operation and curtail the operating and management costs to improve the Shareholders’ return.

**5. MATERIAL ADVERSE CHANGE**

As disclosed in the interim results announcement of the Company published on 28 November 2019, the Group recorded an unaudited net loss of approximately HK\$32.8 million for the six months ended 30 September 2019 as compared to an unaudited net loss of approximately HK\$27.0 million for the same period in 2018. Such an increase was mainly attributable to the drop in profit margin of the Group’s recovered paper business as a result of the PRC Government’s strict control on the quotas and quality of imported recovered paper. The Directors confirm that save as disclosed above, as at the Latest Practicable Date, there was no material adverse change in the financial or trading position of the Group since 31 March 2019, being the date to which the latest published audited consolidated financial statements of the Group were made up.

**6. EFFECTS OF THE ACQUISITION ON THE EARNINGS AND ASSETS AND LIABILITIES OF THE GROUP**

Following Completion, the Company will indirectly own 40% equity interest in the Target Company. The Target Company will become an associate of the Group, and the financial results of the Target Group will be equity accounted for in the Group’s consolidated financial statements.

As referred to in “Appendix III – Unaudited Pro Forma Financial Information of the Enlarged Group” to this circular, on the basis of the notes set out therein for the purposes of illustrating the effects of the Acquisition, the financial effects of the Acquisition on the Group as if the Acquisition had taken place and had been completed on 30 September 2019 would be as follows:

- (a) there would be no change to the Group’s consolidated total assets and consolidated net assets which were HK\$936 million and HK\$913 million respectively.
- (b) It is expected that, subject to audit, there will be no financial effect to the revenue of the Group after Completion as the income of the Target Group will not be consolidated into that of the Group.

**(1) ACCOUNTANTS' REPORT ON THE TARGET COMPANY**

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong.

**ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF DUGONG IWS HAZ LIMITED TO THE DIRECTORS OF INTEGRATED WASTE SOLUTIONS GROUP HOLDINGS LIMITED****Introduction**

We report on the historical financial information of Dugong IWS HAZ Limited ("Dugong IWS HAZ") set out on pages IIA – 4 to IIA – 14, which comprises the statement of financial position of Dugong IWS HAZ as at 30 June 2019 and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flow, for the period from 15 April 2019 (date of incorporation) to 30 June 2019 (the "Relevant Period"), and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages IIA – 4 to IIA – 14 forms an integral part of this report, which has been prepared for inclusion in the circular of Integrated Waste Solutions Group Holdings Limited (the "Company") dated 31 December 2019 in connection with the acquisition of the 40% interest in Dugong IWS HAZ.

**Directors' responsibility for Historical Financial Information**

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

The Underlying Financial Statements of the Dugong IWS HAZ as defined on page IIA – 4, on which the Historical Financial Information is based, were prepared by the directors of Dugong IWS HAZ. The directors of Dugong IWS HAZ are responsible for the preparation of the Underlying Financial Statements that give a true and fair view in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"), and for such internal control as the directors of Dugong IWS HAZ determine is necessary to enable the preparation of the Underlying Financial Statements that is free from material misstatement, whether due to fraud or error.

**Reporting accountants' responsibility**

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical 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, the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of Dugong IWS HAZ's financial position as at 30 June 2019 and of Dugong IWS HAZ's financial performance and cash flows for the Relevant Period in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

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## **APPENDIX IIA      FINANCIAL INFORMATION OF THE TARGET COMPANY**

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### **Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited**

#### ***Adjustments***

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page IIA – 4 have been made.

#### **KPMG**

##### ***Certified Public Accountants***

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

31 December 2019



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## APPENDIX IIA FINANCIAL INFORMATION OF THE TARGET COMPANY

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### HISTORICAL FINANCIAL INFORMATION

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of Dugong IWS HAZ for the Relevant Period, on which the Historical Financial Information is based, were audited by KPMG under separate terms of engagement with Dugong IWS HAZ in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board ("Underlying Financial Statements").

#### Statement of profit or loss and other comprehensive income

*(Expressed in Hong Kong dollars)*

		<b>Period from 15 April 2019 (date of incorporation) to 30 June 2019</b>
	<i>Note</i>	<i>HK\$</i>
<b>Revenue</b>	3	–
Administrative expenses		<u>(53,818)</u>
<b>Loss from operations</b>		(53,818)
Finance costs	4	<u>(3,032)</u>
<b>Loss before taxation</b>	4	(56,850)
Income tax	5	<u>–</u>
<b>Loss and total comprehensive income for the period</b>		<u><u>(56,850)</u></u>

The accompanying notes form part of the Historical Financial Information.

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**APPENDIX IIA     FINANCIAL INFORMATION OF THE TARGET COMPANY**

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**Statement of financial position***(Expressed in Hong Kong dollars)*

	<i>Note</i>	<b>As at 30 June 2019 HK\$</b>
<b>Current asset</b>		
Prepayments and deposits		<u>5,850</u>
		<u>5,850</u>
<b>Current liabilities</b>		
Bank overdraft	8	3,015
Amount due to immediate holding company	9	39,000
Other payables		<u>20,684</u>
		<u>62,699</u>
<b>NET LIABILITIES</b>		<u><u>(56,849)</u></u>
<b>CAPITAL AND RESERVE</b>		
Share capital	10	1
Accumulated losses		<u>(56,850)</u>
<b>TOTAL EQUITY</b>		<u><u>(56,849)</u></u>

The accompanying notes form part of the Historical Financial Information.

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**APPENDIX IIA      FINANCIAL INFORMATION OF THE TARGET COMPANY**

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**Statement of changes in equity***(Expressed in Hong Kong dollars)*

	<b>Share capital HK\$</b>	<b>Accumulated losses HK\$</b>	<b>Total HK\$</b>
At 15 April 2019 (date of incorporation)	–	–	–
<b>Change in equity for the period:</b>			
Total comprehensive income for the period	–	(56,850)	(56,850)
Ordinary share issued during the period	<u>1</u>	<u>–</u>	<u>1</u>
Balance at 30 June 2019	<u><u>1</u></u>	<u><u>(56,850)</u></u>	<u><u>(56,849)</u></u>

The accompanying notes form part of the Historical Financial Information.

## APPENDIX IIA FINANCIAL INFORMATION OF THE TARGET COMPANY

### Statement of cash flow

(Expressed in Hong Kong dollars)

	Period from 15 April 2019 (date of incorporation) to 30 June 2019
Note	HK\$
<b>Operating activities</b>	
<b>Loss before taxation</b>	(56,850)
Changes in working capital:	
Increase in prepayments and deposits	(5,850)
Increase in amounts due to immediate holding company	39,000
Increase in other payables	20,684
	<hr/>
<b>Net cash used in operating activities</b>	(3,016)
	<hr style="border-top: 1px dashed;"/>
<b>Financing activity</b>	
Proceed from issue of ordinary share	1
	<hr/>
<b>Net cash generated from financing activity</b>	1
	<hr style="border-top: 1px dashed;"/>
<b>Net decrease in cash and cash equivalents</b>	(3,015)
<b>Cash and cash equivalents at the beginning of the period</b>	<hr/> —
<b>Cash and cash equivalents at the end of the period</b>	7 <hr/> <hr/> <hr/> (3,015)

The accompanying notes form part of the Historical Financial Information.

**NOTES TO THE HISTORICAL FINANCIAL INFORMATION****1 Basis of preparation and presentation of Historical Financial Information**

Dugong IWS HAZ was incorporated in Hong Kong on 15 April 2019 with limited liability under Companies Ordinance.

Dugong IWS HAZ is an investment holding company. Dugong IWS HAZ has not carried on any business during the Relevant Period.

The Historical Financial Information has been prepared in accordance with all applicable IFRSs which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards and Interpretations issued by the IASB. Further details of the significant accounting policies adopted are set out in Note 2.

The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies set out below have been applied consistently to all periods presented in the Historical Financial Information.

**2 Significant accounting policies****(a) Basis of measurement**

The measurement basis used in the preparation of the Historical Financial Information is the historical cost basis.

***Going concern***

Notwithstanding the net liabilities of Dugong IWS HAZ at 30 June 2019, the Historical Financial Information has been prepared assuming Dugong IWS HAZ will continue as a going concern basis. As the Company being the 40% equity interest holder of Dugong IWS HAZ upon completion of the acquisition, has undertaken to provide adequate financial support to maintain the Dugong IWS HAZ as a going concern and to enable it to meet its liabilities as and when they fall due.

**(b) Use of estimates and judgements**

The preparation of Historical Financial Information in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not clear from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

**(c)      *Credit losses and impairment of assets***

Dugong IWS HAZ recognises a loss allowance for expected credit losses (“ECLs”) on the financial assets measured at amortised cost (including cash and cash equivalents).

*Measurement of ECLs*

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to Dugong IWS HAZ in accordance with the contract and the cash flows that Dugong IWS HAZ expects to receive).

The maximum period considered when estimating ECLs is the maximum contractual period over which Dugong IWS HAZ is exposed to credit risk.

In measuring ECLs, Dugong IWS HAZ takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables, lease receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Dugong IWS HAZ’s historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, Dugong IWS HAZ recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

**(d)      *Receivables***

A receivable is recognised when Dugong IWS HAZ has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before Dugong IWS HAZ has an unconditional right to receive consideration, the amount is presented as a contract asset.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see Note 2(c)).

**(e)      *Cash and cash equivalents***

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of Dugong IWS HAZ’s cash management are also included as a component of cash and cash equivalents for the purpose of the statement of cash flow. Cash and cash equivalents are assessed for expected credit losses (“ECL”) in accordance with the policy set out in Note 2(c).

**(f) Payables (including amount due to immediate holding company)**

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

**(g) Income tax**

Income tax for the year comprises current tax. Current are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

**(h) Provisions and contingent liabilities**

Provisions are recognised when Dugong IWS HAZ has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

**(i) Borrowing costs**

Borrowing costs are expensed in the period in which they are incurred.

**(j) Related parties**

(a) A person, or a close member of that person's family, is related to Dugong IWS HAZ if that person:

- (i) has control or joint control over Dugong IWS HAZ;
- (ii) has significant influence over Dugong IWS HAZ; or
- (iii) is a member of the key management personnel of Dugong IWS HAZ or Dugong IWS HAZ's parent.

(b) An entity is related to Dugong IWS HAZ if any of the following conditions applies:

- (i) The entity and Dugong IWS HAZ are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either Dugong IWS HAZ or an entity related to Dugong IWS HAZ.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).

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## APPENDIX IIA FINANCIAL INFORMATION OF THE TARGET COMPANY

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- (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).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to Dugong IWS HAZ or to Dugong IWS HAZ's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

### 3 Revenue

The principal activity of Dugong IWS HAZ is investment holding.

No revenue was derived from this activity during the Relevant Period.

### 4 Loss before taxation

Period from  
15 April 2019  
(date of  
incorporation) to  
30 June 2019  
HK\$

Finance costs:

Bank overdraft interest

3,032

### 5 Income tax

No provision for Hong Kong Profits Tax was made as Dugong IWS HAZ did not earn any income subject to Hong Kong Profits Tax during the Relevant Period.

*Reconciliation between tax expense and accounting loss at applicable tax rates:*

Period from  
15 April 2019  
(date of  
incorporation) to  
30 June 2019  
HK\$

Loss before taxation

(56,850)

Tax calculated at tax rate of 16.5%

(9,380)

Tax effect of non-deductible expenses

9,380

Income tax

—

### 6 Directors' emoluments

The directors of Dugong IWS HAZ did not receive any remuneration from Dugong IWS HAZ during the Relevant Period.



## APPENDIX IIA FINANCIAL INFORMATION OF THE TARGET COMPANY

### 7 Cash and cash equivalents and other cash flow information

*Cash and cash equivalents comprise:*

	As at 30 June 2019 HK\$
Bank overdraft ( <i>Note 8</i> )	3,015
Cash and cash equivalents in the statement of cash flow	3,015

### 8 Bank overdraft

At 30 June 2019, the bank overdrafts was unsecured and repayable within 1 year or on demand.

### 9 Amount due to immediate holding company

The amount due to immediate holding company is unsecured, non-interest bearing and repayable on demand.

### 10 Capital, reserve and dividends

#### (a) Dividends

Dugong IWS HAZ did not declare any dividends during the Relevant Period.

#### (b) Share capital

	No. of share	HK\$
<b>Ordinary share, issued and fully paid:</b>		
At 15 April 2019 (date of incorporation)	–	–
Issue of ordinary share	10,000	1
	<u>10,000</u>	<u>1</u>
At 30 June 2019	10,000	1
	<u>10,000</u>	<u>1</u>

In accordance with section 135 of the Hong Kong Companies Ordinance, the ordinary shares of Dugong IWS HAZ do not have a par value.

#### (c) Capital management

Dugong IWS HAZ's primary objectives when managing capital are to safeguard Dugong IWS HAZ's ability to continue as a going concern, so that it can continue to provide returns for equity shareholder and benefits for other stakeholders.

Dugong IWS HAZ actively and regularly reviews and manages its capital structure to maintain a balance between the higher equity shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Dugong IWS HAZ is not subject to externally imposed capital requirements.

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## APPENDIX IIA FINANCIAL INFORMATION OF THE TARGET COMPANY

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### 11 Financial risk management and fair values of financial instruments

Exposure to liquidity and interest rate risks arises in the normal course of Dugong IWS HAZ's business. Dugong IWS HAZ's exposure to these risks and the financial risk management policies and practices used by the Dugong IWS HAZ to manage these risks are described below.

#### (a) *Liquidity Risk*

Dugong IWS HAZ's policy is to regularly monitor its liquidity requirements to ensure that it is able to meet its liquidity requirements in the short and longer term.

All financial liabilities as disclosed in the statement of financial position can be required to be settled within one year or on demand.

#### (b) *Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Dugong IWS HAZ's interest rate risk arises primarily from bank overdraft. Dugong IWS HAZ's interest rate profile as monitored by management is set out in below.

##### (i) *Interest rate profile*

The following table details the interest rate profile of Dugong IWS HAZ's borrowings at the end of the reporting period.

	As at 30 June 2019	
	Effective interest rate	HK\$
	%	
<b>Variable rate borrowing:</b>		
Bank overdraft	6.28% p.a.	3,053

### 12 Material related party transactions

Dugong IWS HAZ did not enter any significant related party transactions during the Relevant Period.

### 13 Non-adjusting events after the reporting period

- (a) In July 2019, Dugong Limited, the immediate holding company, subscribed 50,000 ordinary shares of Dugong IWS HAZ at a total value of HK\$68,941,000 by transferring its 51% equity interest in Lianyungang Lvrn Environmental Protection Technology Co., Ltd. to Dugong IWS HAZ as consideration.
- (b) In September 2019, Dugong IWS HAZ entered into an agreement with Henan Yicheng Environmental and Technology Co., Ltd. and Kaifeng Development Investment Group Co., Ltd. to establish a sino-foreign joint equity enterprise named Dugong Environment Resource (Kaifeng) Co., Ltd. ("Kaifeng Dagong"). Dugong IWS HAZ's total commitment to the investment in Kaifeng Dagong is RMB45,900,000. Dugong IWS HAZ's interest in Kaifeng Dagong will be 51% upon completion of capital contribution.

### 14 Immediate and ultimate controlling party

At 30 June 2019, the directors of Dugong IWS HAZ consider the immediate and ultimate controlling party of Dugong IWS HAZ to be Dugong Limited, which is incorporated in Hong Kong. This entity does not produce financial statements available for public use.

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## APPENDIX IIA FINANCIAL INFORMATION OF THE TARGET COMPANY

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### 15 Possible impact of amendments, new standards and interpretations issued but not yet effective for the Relevant Period

Up to the date of issue of Historical Financial Information, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the Relevant Period and which have not been adopted in this Historical Financial Information. These include the following which may be relevant to Dugong IWS HAZ.

Effective for  
accounting periods  
beginning on or after

Amendments to IFRS 3, Definition of a business

1 January 2020

Amendments to IAS 1 and IAS 8, Definition of material

1 January 2020

Dugong IWS HAZ is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Historical Financial Information.

### SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Dugong IWS HAZ in respect of any period subsequent to 30 June 2019.

**(2) MANAGEMENT DISCUSSION AND ANALYSIS ON THE TARGET COMPANY**

Set out below is the management discussion and analysis of the Target Company for the period from 15 April 2019 (date of incorporation) to 30 June 2019, which should be read in conjunction with the accountants' report of the Target Company as set out in Appendix IIA to this Circular.

**Operating Results**

The Target Company is an investment holding company and was incorporated in Hong Kong on 15 April 2019. It has not carried on any business since the date of its incorporation. During the period from 15 April 2019 (date of incorporation) to 30 June 2019, the Target Company has a loss of HK\$56,850, which was mainly related to the administration expenses incurred during the period.

**Liquidity, Financial Resources and Capital Structure**

The Target Company generally finances its operation with the funding from its shareholders. As at 30 June 2019, the Target Company had net current liabilities of HK\$56,849. The Target Company has no bank borrowing save for a bank overdraft of HK\$3,015 as at 30 June 2019 which was unsecured and repayable within 1 year or on demand. As at 30 June 2019, the Target Company had an amount due to its immediate holding company of HK\$39,000 which is unsecured, non-interest bearing and repayable on demand. No assets of the Target Company was subject to any charge as at 30 June 2019.

**Material Investments, Acquisition and Disposals**

In July 2019, Dugong Limited subscribed 50,000 ordinary shares of the Target Company at a total value of HK\$68,941,000 by transferring its 51% equity interest in Lvrn to the Target Company as consideration.

**Contingent Liabilities and Capital Commitments**

As at 30 June 2019, the Target Company had no material contingent liabilities.

In September 2019, the Target Company entered into an agreement with Henan Yicheng Environmental and Technology Co., Ltd. and Kaifeng Development Investment Group Co., Ltd. to establish a sino-foreign joint equity enterprise named Dugong Environment Resource (Kaifeng) Co., Ltd. (“**Kaifeng Dagong**”). The Target Company's total commitment to the investment in Kaifeng Dagong is RMB45,900,000. The Target Company's interest in Kaifeng Dagong will be 51% upon completion of capital contribution.

**(1) ACCOUNTANTS' REPORT ON THE LVRUN GROUP**

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong.

**ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF LIANYUNGANG LVRUN ENVIRONMENTAL PROTECTION TECHNOLOGY CO., LTD. TO THE DIRECTORS OF INTEGRATED WASTE SOLUTIONS GROUP HOLDINGS LIMITED****Introduction**

We report on the historical financial information of Lianyungang Lvrung Environmental Protection Technology Co., Ltd. ("Lvrung") and its subsidiaries (together, the "Lvrung Group") set out on pages IIB – 4 to IIB – 43, which comprises the consolidated statements of financial position of the Lvrung Group as at 31 December 2016, 2017 and 2018 and 30 June 2019 and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows, for each of the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages IIB – 4 to IIB – 43 forms an integral part of this report, which has been prepared for inclusion in the circular of Integrated Waste Solutions Group Holdings Limited dated 31 December 2019 in connection with the acquisition of the 40% interest in Dugong IWS HAZ Limited.

**Directors' responsibility for Historical Financial Information**

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

The Underlying Financial Statements of the Lvrung Group as defined on page IIB – 4, on which the Historical Financial Information is based, were prepared by the directors of Lvrung. The directors of Lvrung are responsible for the preparation of the Underlying Financial Statements that gives a true and fair view in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"), and for such internal control as the directors of Lvrung determine is necessary to enable the preparation of the Underlying Financial Statements that is free from material misstatement, whether due to fraud or error.

**Reporting accountants' responsibility**

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that give a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical 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, the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of the Lvr run Group's financial position as at 31 December 2016, 2017 and 2018 and 30 June 2019 and of the Lvr run Group's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

**Review of stub period corresponding financial information**

We have reviewed the stub period corresponding financial information of the Lvr run Group which comprises the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months ended 30 June 2018 and other explanatory information (the "Stub Period Corresponding Financial Information"). The directors of the Company are responsible for the preparation and presentation of the Stub Period Corresponding Financial Information in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Corresponding Financial Information based on our review. We conducted our review in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial

Information Performed by the Independent Auditor of the Entity” issued by the International Auditing and Assurance Standards Board (“IAASB”). A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Corresponding Financial Information, for the purpose of the accountants’ report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

**Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited**

*Adjustments*

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page IIB – 4 have been made.

**KPMG**

*Certified Public Accountants*

8th Floor, Prince’s Building

10 Chater Road

Central, Hong Kong

31 December 2019

## HISTORICAL FINANCIAL INFORMATION

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The consolidated financial statements of the Lvr run Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by KPMG under separate terms of engagement with Lvr run in accordance with International Standards on Auditing issued by the IAASB ("Underlying Financial Statements").

## Consolidated statements of profit or loss and other comprehensive income

		Year ended 31 December			Six months ended 30 June	
	Note	2016 RMB	2017 RMB	2018 RMB	2018 RMB	2019 RMB
					(Unaudited)	
<b>Revenue</b>	4	–	43,019,420	70,734,137	30,160,689	54,166,285
Cost of sales		–	(20,045,665)	(23,872,345)	(10,934,280)	(16,197,941)
<b>Gross profit</b>		–	22,973,755	46,861,792	19,226,409	37,968,344
Other net income	5	465	758,991	6,230,625	2,376,577	3,822,858
Selling and distribution costs		–	(4,043,707)	(12,377,654)	(4,159,575)	(11,546,532)
Administrative expenses		(2,585,956)	(5,898,450)	(18,850,198)	(4,755,826)	(14,809,198)
<b>(Loss)/profit from operations</b>		(2,585,491)	13,790,589	21,864,565	12,687,585	15,435,472
Finance costs	6(a)	(139,241)	(734,138)	(710,066)	(473,783)	(40,060)
<b>(Loss)/profit before taxation</b>	6	(2,724,732)	13,056,451	21,154,499	12,213,802	15,395,412
Income tax	7	–	–	–	–	–
<b>(Loss)/profit and total comprehensive income for the year/period</b>		<u>(2,724,732)</u>	<u>13,056,451</u>	<u>21,154,499</u>	<u>12,213,802</u>	<u>15,395,412</u>

The accompanying notes form part of the Historical Financial Information.



## APPENDIX IIB FINANCIAL INFORMATION OF THE LVRUN GROUP

### Consolidated statements of financial position

		As at 31 December			As at
		2016	2017	2018	30 June
	Note	RMB	RMB	RMB	RMB
<b>Non-current assets</b>					
Property, plant and equipment	10	11,027,475	28,167,175	95,096,641	104,974,779
Interests in leasehold land held for own use under operating leases	11	–	–	11,416,727	–
Prepayments	13	982,267	1,119,490	3,421,263	6,103,160
		<u>12,009,742</u>	<u>29,286,665</u>	<u>109,934,631</u>	<u>111,077,939</u>
<b>Current assets</b>					
Inventories	12	19,052	685,084	2,808,767	1,956,816
Trade and other receivables	13	529,142	10,834,119	14,195,712	32,803,034
Cash and cash equivalents	14	979,327	349,866	37,882	3,989,073
		<u>1,527,521</u>	<u>11,869,069</u>	<u>17,042,361</u>	<u>38,748,923</u>
<b>Current liabilities</b>					
Trade and other payables	15	10,095,365	24,057,385	31,966,495	39,420,953
Amounts due to shareholders	16	5,400,000	6,000,000	–	–
		<u>15,495,365</u>	<u>30,057,385</u>	<u>31,966,495</u>	<u>39,420,953</u>
<b>Net current liabilities</b>		<u>(13,967,844)</u>	<u>(18,188,316)</u>	<u>(14,924,134)</u>	<u>(672,030)</u>
<b>NET (LIABILITIES)/ASSETS</b>		<u>(1,958,102)</u>	<u>11,098,349</u>	<u>95,010,497</u>	<u>110,405,909</u>
<b>CAPITAL AND RESERVES</b>					
Paid-up capital	17	830,000	830,000	63,600,000	63,600,000
Reserves		<u>(2,788,102)</u>	<u>10,268,349</u>	<u>31,410,497</u>	<u>46,805,909</u>
<b>TOTAL (DEFICIT)/EQUITY</b>		<u>(1,958,102)</u>	<u>11,098,349</u>	<u>95,010,497</u>	<u>110,405,909</u>

The accompanying notes form part of the Historical Financial Information.

## Consolidated statements of changes in equity

	<i>Note</i>	Attributable to equity shareholders of Lvrn		
		Paid-up capital <i>RMB</i>	(Accumulated losses)/ retained profits <i>RMB</i>	Total <i>RMB</i>
Balance at 1 January 2016		100,000	(63,370)	36,630
Change in equity for 2016:				
Total comprehensive income for the year		–	(2,724,732)	(2,724,732)
Capital injection		730,000	–	730,000
Balance at 31 December 2016 and 1 January 2017		830,000	(2,788,102)	(1,958,102)
Change in equity for 2017:				
Total comprehensive income for the year		–	13,056,451	13,056,451
Balance at 31 December 2017 and 1 January 2018		830,000	10,268,349	11,098,349
Impact on initial application of IFRS 9	2(c)	–	(12,351)	(12,351)
Adjusted balances at 1 January 2018		830,000	10,255,998	11,085,998
Change in equity for 2018:				
Total comprehensive income for the year		–	21,154,499	21,154,499
Capital injection	17(a)	62,770,000	–	62,770,000
Balance at 31 December 2018 and 1 January 2019		63,600,000	31,410,497	95,010,497
Change in equity for the period:				
Total comprehensive income for the period		–	15,395,412	15,395,412
Balance at 30 June 2019		63,600,000	46,805,909	110,405,909

	<i>Note</i>	<b>Attributable to equity shareholders of Lvr run</b>		
		<b>Paid-up capital</b>	<b>Retained profits</b>	<b>Total</b>
		<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
(Unaudited)				
Balance at 1 January 2018		830,000	10,268,349	11,098,349
Impact on initial application of IFRS 9	2(c)	—	(12,351)	(12,351)
Adjusted balances at 1 January 2018		830,000	10,255,998	11,085,998
Change in equity for the period:				
Total comprehensive income for the period		—	12,213,802	12,213,802
Capital injection	17(a)	3,400,000	—	3,400,000
Balance at 30 June 2018		4,230,000	22,469,800	26,699,800

The accompanying notes form part of the Historical Financial Information.

## APPENDIX IIB FINANCIAL INFORMATION OF THE LVRUN GROUP

### Consolidated statements of cash flows

	<i>Note</i>	Year ended 31 December		Six months ended 30 June	
		2016 <i>RMB</i>	2017 <i>RMB</i>	2018 <i>RMB</i>	2018 <i>RMB</i>
					(Unaudited)
<b>Operating activities</b>					
(Loss)/profit before taxation		(2,724,732)	13,056,451	21,154,499	12,213,802
					15,395,412
Adjustments for:					
Depreciation	6(c)	258,688	1,367,662	3,352,938	1,179,847
Amortisation	6(c)	—	—	21,340	—
Bank interest income	5	(465)	(1,313)	(2,125)	(1,276)
Interest expenses	6(a)	139,241	734,138	710,066	473,783
					40,060
<b>Changes in working capital:</b>					
(Increase)/decrease in inventories		(19,052)	(666,032)	(2,123,683)	(2,644,025)
					851,951
(Increase)/decrease in trade and other receivables		(859,409)	(10,442,200)	(5,128,243)	8,413,142
					(21,289,219)
Increase/(decrease) in trade and other payables		<u>7,039,124</u>	<u>13,899,247</u>	<u>8,689,057</u>	<u>(5,736,515)</u>
					<u>7,454,458</u>
<b>Net cash generated from operating activities</b>		<u>3,833,395</u>	<u>17,947,953</u>	<u>26,673,849</u>	<u>13,898,758</u>
					<u>6,354,843</u>
<b>Investing activities</b>					
Payment for purchase of property, plant and equipment		(11,286,163)	(18,507,362)	(27,468,423)	(9,996,458)
					(2,364,557)
Payment for purchase of net assets	18	—	—	(53,591,535)	—
Interest received		<u>465</u>	<u>1,313</u>	<u>2,125</u>	<u>1,276</u>
					<u>965</u>
<b>Net cash used in investing activities</b>		<u>(11,285,698)</u>	<u>(18,506,049)</u>	<u>(81,057,833)</u>	<u>(9,995,182)</u>
					<u>(2,363,592)</u>

		Year ended 31 December		Six months ended 30 June		
		2016	2017	2018	2018	2019
	Note	RMB	RMB	RMB	RMB	RMB
					(Unaudited)	
Financing activities						
Increase in amounts due to shareholders		4,950,000	600,000	—	—	—
Increase in amounts due to employees		2,717,000	—	—	—	—
Repayment of amounts due to shareholders		—	—	(6,000,000)	(6,000,000)	—
Repayment of amounts due to employees		—	(19,000)	(2,698,000)	(1,520,000)	—
Capital injection	17	730,000	—	62,770,000	3,400,000	—
Interest paid		<u>—</u>	<u>(652,365)</u>	<u>—</u>	<u>—</u>	<u>(40,060)</u>
Net cash generated from/ (used in) financing activities		<u>8,397,000</u>	<u>(71,365)</u>	<u>54,072,000</u>	<u>(4,120,000)</u>	<u>(40,060)</u>
Net increase/(decrease) in cash and cash equivalents						
		944,697	(629,461)	(311,984)	(216,424)	3,951,191
Cash and cash equivalents at the beginning of the year/period						
		<u>34,630</u>	<u>979,327</u>	<u>349,866</u>	<u>349,866</u>	<u>37,882</u>
Cash and cash equivalents at the end of the year/period						
	14	<u>979,327</u>	<u>349,866</u>	<u>37,882</u>	<u>133,442</u>	<u>3,989,073</u>

The accompanying notes form part of the Historical Financial Information.

## NOTES TO THE HISTORICAL FINANCIAL INFORMATION

**1 Basis of preparation and presentation of Historical Financial Information**

Lvr run was incorporated in the People's Republic of China (the "PRC") on 16 November 2015 as a sino-foreign equity joint venture enterprise.

The Lvr run Group is principally engaged in the provision of hazardous waste treatment service.

The Historical Financial Information is presented in Renminbi ("RMB"), which is also the functional currency of Lvr run and its subsidiary.

The Historical Financial Information has been prepared in accordance with all applicable IFRSs which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards and Interpretations issued by the IASB. Further details of the significant accounting policies adopted are set out in Note 2.

The accounting policies set out below have been applied consistently to all periods presented in the Historical Financial Information, unless otherwise stated. The Lvr run Group has not applied any new standards or interpretations that are not yet effective for the Relevant Periods. The revised and new accounting standards and interpretations issued but not yet effective for the Relevant Periods are set out in Note 23.

The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Stub Period Corresponding Financial Information has been prepared in accordance with the same basis of preparation and presentation adopted in respect of the Historical Financial Information.

As at the end of the Relevant Periods, Lvr run has direct interests in the following subsidiary which is a private company:

Company name	Place and date of establishment	Particulars of issued and paid-up capital	Proportion of ownership interest held by Lvr run	Principal activities	Name of statutory auditor
Leyuan New Material Technology Co., Ltd. ("Leyuan New Material")	PRC 26 December 2008	RMB46,960,000	100%	Property holding	Jiangsu Suyu Jincheng CPA LLP

All companies comprising the Lvr run Group have adopted 31 December as their financial year end date.

**2 Significant accounting policies****(a) Basis of measurement**

The measurement basis used in the preparation of the Historical Financial Information is the historical cost basis.

*Going concern*

The Historical Financial Information has been prepared assuming the Lvr run Group will continue as a going concern notwithstanding the net current liabilities of the Lvr run Group at 31 December 2016, 2017 and 2018 and 30 June 2019. The directors are at the opinion that, based on a detailed review of the working capital forecast of the Lvr run Group for the period ending 30 June 2020, the Lvr run Group will have necessary liquid funds to finance its working capital and capital expenditure requirements.

**(b) Use of estimates and judgements**

The preparation of Historical Financial Information in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the Historical Financial Information and major sources of estimation uncertainty are discussed in Note 3.

**(c) Changes in accounting policies**

The IASB has issued a number of new and revised IFRSs that are first effective for the accounting period of the Lvr run Group during the Relevant Periods. Of these, the following developments are relevant to the Lvr run Group:

	<b>Effective for accounting periods beginning on</b>
IFRS 9, Financial instruments	1 January 2018
IFRS 15, Revenue from contracts with customers	1 January 2018
IFRS 16, Leases	1 January 2019

Due to the transition methods chosen by the Lvr run Group in applying these standards, comparative information throughout the Historical Financial Information has not been restated to reflect the requirements of the new standards.

Details of the changes in accounting policies are discussed below.

**(i) IFRS 9, *Financial Instruments***

IFRS 9 replaces IAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Lvr run Group has applied IFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The cumulative effect of initial application was recognised as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under IAS 39.

Upon the initial application of IFRS 9, the Lvr run Group recognised expected credit losses on trade receivables of RMB12,351. The amount was recognised as an adjustment to the opening equity at 1 January 2018, causing a net decrease in retained profits by the same amount.

Further details of the nature and effects of the changes to previous accounting policies are set out below:

A. Classification of financial assets and financial liabilities

IFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (“FVOCI”) and at fair value through profit or loss (“FVPL”). These supersede IAS 39’s categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under IFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

For an explanation of how the Lvr run Group classifies and measures financial assets and recognises related gains and losses under IFRS 9, see respective accounting policy notes in Notes 2(g)(i), 2(j) and 2(k). The classification and measurement of the Lvr run Group’s financial assets at 1 January 2018 have not been impacted by the initial application of IFRS 9.

The measurement categories for all financial liabilities remain the same, except for financial guarantee contract, which is not relevant to the Lvr run Group. The carrying amounts of the Lvr run Group’s financial liabilities at 1 January 2018 have not been impacted by the initial application of IFRS 9.

B. Credit losses

IFRS 9 replaces the “incurred loss” model in IAS 39 with the “expected credit loss” (“ECL”) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the “incurred loss” accounting model in IAS 39.

The Lvr run Group applies the new ECL model to the financial assets measured at amortised cost (including cash and cash equivalents and trade and other receivables).

For further details on the Lvr run Group’s accounting policy for accounting for credit losses, see Note 2(g)(i).

The following table reconciles the closing loss allowance determined in accordance with IAS 39 as at 31 December 2017 with the opening loss allowance determined in accordance with IFRS 9 as at 1 January 2018.

	<i>RMB</i>
Loss allowance at 31 December 2017 under IAS 39	–
Additional credit loss on trade receivables recognised as at 1 January 2018	12,351
Loss allowance at 1 January 2018 under IFRS 9	12,351



## C. Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

- Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of IFRS 9 are recognised in retained profits as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under IAS 39 and thus may not be comparable.
- If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

(ii) IFRS 15, *Revenue from contracts with customers*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 *Revenue*, which covered revenue arising from sale of goods and rendering of services, and IAS 11 *Construction Contracts*, which specified accounting for construction contracts.

IFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

Details of the nature and effect of the changes on previous accounting policies are set out below:

## A. Timing of revenue recognition

Previously, revenue arising from provision of services was recognised over time, whereas revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

Under IFRS 15, revenue is recognised when the customer obtains control of the promised goods or services in the contract, which may be at a single point in time or over time. IFRS 15 identifies the following three situations in which controls of the promised goods or service is regarded as being transferred over time:

- (i) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;
- (ii) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;
- (iii) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under IFRS 15 the entity recognises revenue for the sale of that goods or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The adoption of IFRS 15 does not have a significant impact on when the Lvrund Group recognises revenue.

B. Significant financing component

IFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are recovered significantly in advance of revenue recognition or significantly deferred.

Previously, the Lvr run Group only applied such a policy when payments were significantly deferred, which was not common in the Lvr run Group's arrangements with its customers. The Lvr run Group did not apply such a policy when payments were received in advance.

It is not common for the Lvr run Group to receive payments significantly in advance of revenue recognition in the Lvr run Group's arrangements with its customers. Changes on this area under IFRS 15 does not have a significant impact to the Lvr run Group.

C. Presentation of contract assets and contract liabilities

Under IFRS 15, a receivable is recognised only if the Lvr run Group has an unconditional right to consideration. If the Lvr run Group recognises the related revenue (see Note 2(q)) before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Lvr run Group recognised the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis (see Note 2(i)).

To reflect these changes in presentation under IFRS 15, the Lvr run Group has reclassified receipts in advance from customers amounting to RMB352,041 from "receipts in advance from customers" in trade and other payables to "contract liabilities" in trade and other payables on 1 January 2018 (Note 15).

(iii) IFRS 16, *Leases*

IFRS 16 replaces IAS 17, *Leases*, and the related interpretations, IFRIC 4, *Determining whether an arrangement contains a lease*, SIC 15, *Operating leases – incentives*, and SIC 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low-value assets. The lessor accounting requirements are brought forward from IAS 17 substantially unchanged.

IFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Lvr run Group has initially applied IFRS 16 as from 1 January 2019. The Lvr run Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of the initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under IAS 17.

Under IAS 17, the Lvr run Group has already recognised upfront payments for leasehold lands and classified such payments as interests in leasehold land held for own use under operating leases, which is separately presented in the consolidated statement of financial position. Upon application of IFRS 16 from 1 January 2019, the interests in leasehold land held for own use under operating leases were reclassified to other properties leased for own use within the line item of property, plant and equipment.

The following table summarises the impacts of the adoption of IFRS 16 on the Lvr run Group's consolidated statement of financial position:

	Carrying amount at 31 December 2018 RMB	Reclassification RMB	Carrying amount at 1 January 2019 RMB
<b>Line items in the consolidated statement of financial position impacted by the adoption of IFRS 16:</b>			
Property, plant and equipment	95,096,641	11,416,727	106,513,368
Interests in leasehold land held for own use under operating leases	11,416,727	(11,416,727)	–
<b>Total non-current assets</b>	<b>109,934,631</b>	<b>–</b>	<b>109,934,631</b>
<b>Net assets</b>	<b>95,010,497</b>	<b>–</b>	<b>95,010,497</b>

(d) *Subsidiaries*

Subsidiaries are entities controlled by the Lvr run Group. The Lvr run Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Lvr run Group has power. Only substantive rights (held by the Lvr run Group and other parties) are considered.

An investment in a subsidiary is consolidated into the Historical Financial Information from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Historical Financial Information.

Changes in the Lvr run Group's equity interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative equity interests, but no adjustment are made to goodwill and no gain or loss is recognised.

When the Lvr run Group loses control of a subsidiary, it is accounted for as a disposal of the entire equity interests in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any equity interests retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment an associate or joint venture.

In Lvr run's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(g)(ii)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

**(e) Property, plant and equipment**

The following items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see Note 2(g)(ii)):

- interests in leasehold land held for own use under operating leases; and
- other items of plant and equipment.

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see Note 2(s)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

	Unexpired term of the lease
– Interests in leasehold land held for own use under operating leases	10 – 20 years
– Buildings	4 – 10 years
– Plant and machinery	4 – 5 years
– Motor vehicles	3 – 5 years
– Computer equipment	

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually. No depreciation is provided in respect of construction in progress until it is completed and ready for its intended use.

**(f) Leased assets**

At inception of a contract, the Lvr run Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

**(i) As a lessee****(A) Policy applicable from 1 January 2019**

Where the contract contains lease component(s) and non-lease component(s), the Lvr run Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Lvr run Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Lvr run Group enters into a lease in respect of a low-value asset, the Lvr run Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expenses is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see Notes 2(e) and 2(g)(ii)).

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Lvr run Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Lvr run Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Lvr run Group presents right-of-use assets in 'property, plant and equipment' and presents lease liabilities separately in the statement of financial position.

(B) Policy applicable prior to 1 January 2019

In the comparative periods, as a lessee the Lvr run Group classified leases which did not transfer substantially all the risks and rewards of ownership as operating leases.

Where the Lvr run Group had the use of assets held under operating leases, payments made under the leases were charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis was more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received were recognised in profit or loss as an integral part of the aggregate net lease payments made.

(g) *Credit losses and impairment of assets*

(i) *Credit losses from financial instruments, contract assets and lease receivables*

(A) Policy applicable from 1 January 2018

The Lvr run Group recognises a loss allowance for financial assets measured at amortised cost (including trade and other receivables and cash and cash equivalents).

Financial assets measured at fair value, if any, are not subject to the ECL assessment.

*Measurement of ECLs*

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Lvr run Group in accordance with the contract and the cash flows that the Lvr run Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

- trade and other receivables: effective interest rate determined at initial recognition or an approximation thereof;
- variable-rate financial assets: current effective interest rate.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Lvr run Group is exposed to credit risk.

In measuring ECLs, the Lvr run Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecast s of future economic conditions.

ECLs are measured on either of the following bases:

- 12 months ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Lvr run Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Lvr run Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

*Significant increases in credit risk*

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Lvr run Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Lvr run Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Lvr run Group in full, without recourse by the Lvr run Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Lvr run Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Lvr run Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Lvr run Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

*Basis of calculation of interest income*

Interest income recognised in accordance with note 2(q)(iii) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Lvr run Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

#### Write-off policy

The gross carrying amount of a financial asset, lease receivable or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Lvrün Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

#### (B) Policy applicable prior to 1 January 2018

Prior to 1 January 2018, an “incurred loss” model was used to measure impairment losses on financial assets not classified as at FVPL (e.g. trade and other receivables). Under the “incurred loss” model, an impairment loss was recognised only when there was objective evidence of impairment. Objective evidence of impairment included:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence existed, an impairment loss was determined and recognised as follows:

For trade and other receivables and other financial assets carried at amortised cost, impairment loss was measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the financial asset’s original effective interest rate, where the effect of discounting was material. This assessment was made collectively where these financial assets shared similar risk characteristics, such as similar past due status, and had not been individually assessed as impaired. Future cash flows for financial assets which were assessed for impairment collectively were based on historical loss experience for assets with credit risk characteristics similar to the collective group.



If in a subsequent period the amount of an impairment loss decreased and the decrease could be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss was reversed through profit or loss. A reversal of an impairment loss was only recognised to the extent that it did not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

When the recovery of a trade debtor or other financial assets carried at amortised cost was considered doubtful but not remote, associated impairment losses were recorded using an allowance account. When the Lvr run Group was satisfied that recovery was remote, the amount considered irrecoverable was written off against the gross carrying amount of those assets directly. Subsequent recoveries of amounts previously charged to the allowance account were reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly were recognised in profit or loss.

(ii) *Impairment of other non-current assets*

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- pre-paid interests in leasehold land classified as being held under an operating lease; and
- investment in subsidiary in Lvr run's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated.

- Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

- Reversals of impairment losses

An impairment loss is reserved if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

**(h) Inventories**

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

**(i) Contract liabilities**

A contract liability is recognised when the customer pays non-refundable consideration before the Lvr run Group recognises the related revenue (see Note 2(q)(i) and (ii)). A contract liability would also be recognised if the Lvr run Group has an unconditional right to receive non-refundable consideration before the Lvr run Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see Note 2(j)).

For a single contract with the customer, either a new contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see Note 2(q)(iii)).

Policy prior to 1 January 2018

Amounts received before the related work was performed were presented as “receipts in advance from customers” under “trade and other payables”. These balances have been reclassified on 1 January 2018 as shown in Note 15 (see Note 2(c)(ii)).

**(j) Trade and other receivables**

A receivable is recognised when the Lvr run Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Lvr run Group has an unconditional right to receive consideration, the amount is presented as a contract asset.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see Note 2(g)(i)).

**(k) Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for ECLs in accordance with the policy set out in Note 2(g)(i).

**(l) Trade and other payables**

Trade and other payables are initially recognised at fair value and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

**(m) Interest-bearing borrowings**

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Lvr run Group's accounting policy for borrowing costs (see Note 2(s)).

**(n) Employee benefits**

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

**(o) Income tax**

Income tax for the year comprises current tax. Current tax is recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

**(p) Provisions and contingent liabilities**

Provisions are recognised when the Lvr run Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

**(q)      *Revenue and other income***

Income is classified by the Lvr run Group as revenue when it arises from the sales of goods or provision of services in the ordinary course of the Lvr run Group's business.

Revenue is recognised when control over a product or service is transferred to the customer at the amount of promised consideration to which the Lvr run Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Further details of the Lvr run Group's revenue and other income recognition policies are as follows:

**(i)      *Sale of goods***

The Lvr run Group's revenue from sale of goods is attributable to sales of chemical products. Revenue is recognised when the customer takes possession of and accepts the products. If the products are a partial fulfilment of a contract covering other goods and/or services, then the amount of revenue recognised is an appropriate proportion of the total transaction price under the contract, allocated between all the goods and services promised under the contract on a relative stand-alone selling price basis.

**(ii)     *Rendering of services***

The Lvr run Group's revenue from rendering of services is attributable to provision of handling service of hazardous waste. Revenue from rendering of services is recognised when the related services are rendered.

**(iii)    *Interest income***

Interest income is recognised as it accrues under the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see Note 2(g)(i)).

**(iv)     *Government grants***

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Lvr run Group will comply with the conditions attaching to them. Grants that compensate the Lvr run Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred.

**(r)      *Translation of foreign currencies***

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Lvr run Group initially recognises such non-monetary assets or liabilities.

(s) ***Borrowing costs***

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(t) ***Related parties***

(a) A person, or a close member of that person's family, is related to the Lvr run Group if that person:

- (i) has control or joint control over the Lvr run Group;
- (ii) has significant influence over the Lvr run Group; or
- (iii) is a member of the key management personnel of the Lvr run Group or the Lvr run Group's parent.

(b) An entity is related to the Lvr run Group if any of the following conditions applies:

- (i) The entity and the Lvr run Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Lvr run Group or an entity related to the Lvr run Group.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Lvr run Group or to the Lvr run Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

### 3 Accounting judgement and estimates

In the process of applying the Lvr run Group's accounting policies, management has made the following accounting judgement:

- a) Expected credit loss for trade and other receivables

The management maintains loss allowance for trade and other receivables issued for estimated losses resulting from the inability of the debtors to make the required payments. The management bases the estimates on the historical credit loss experience, adjusted for factors that are specific to the debtors and assessments of both current and forecast general economic conditions. If the financial condition of the debtors were to deteriorate, and/or the existing/forecast changes have a negative impact on the general economic conditions, credit losses would be higher than estimated.

- b) Estimate of useful lives of property, plant and equipment

The Lvr run Group determines the estimated useful lives and residual values in order to ascertain the amount of depreciation charges for each reporting period. These estimates are based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. The Lvr run Group will revise the depreciation charge where useful lives or residual values are different from those previously estimated.

### 4 Revenue and segment information

The principal activity of the Lvr run Group is the provision of hazardous waste treatment service in the PRC.

#### Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major service lines is as follows:

	Year ended 31 December			Six months ended 30 June	
	2016 RMB	2017 RMB	2018 RMB	2018 RMB (Unaudited)	2019 RMB
<b>Revenue from contracts with customers within the scope of IFRS 15</b>					
Disaggregated by major service lines					
– Hazardous waste treatment services	–	42,942,683	70,375,391	30,148,202	53,244,560
– Sales of chemical products	–	76,737	358,746	12,487	921,725
	–	43,019,420	70,734,137	30,160,689	54,166,285

The Lvr run Group's customer base is diversified and includes nil, two, two, two customers with whom transactions have exceeded 10% of the Lvr run Group's revenues for the years ended 31 December 2016, 2017 and 2018, and the six months ended 30 June 2019 respectively.

Details of concentrations of credit risk arising from Lvr run Group's customers are set out in note 19(a).

Because all the contracts with customers of the Lvr run Group have an original expected duration of one year or less, the Lvr run Group applies the practical expedient in paragraph 121 of IFRS 15 to all the contracts with customers and no information related to revenue expected to be recognised in the future under the Lvr run Group's existing contracts is required to disclose.

The chief operating decision-maker has been identified as the directors of the Lvr run Group. The directors review the Lvr run Group's internal reporting in order to assess performance of the Lvr run Group's operating segment – Hazardous waste handling in the PRC. Hazardous waste handling segment represents the sole operating segment of the Lvr run Group.

The financial information provided to the chief operating decision-maker is measured in a manner consistent with that of the Historical Financial Information.

The operating entities of the Lvr run Group are domiciled in the PRC. All revenue of the Lvr run Group from external customers are generated in the PRC. Besides, all of the assets of the Lvr run Group are located in the PRC. Thus no geographical information is presented.

## 5 Other net income

	Year ended 31 December			Six months ended 30 June	
	2016 RMB	2017 RMB	2018 RMB	2018 RMB (Unaudited)	2019 RMB
VAT refund	–	757,678	6,008,500	2,375,301	3,771,693
Bank interest income	465	1,313	2,125	1,276	965
Others	–	–	220,000	–	50,200
	<u>465</u>	<u>758,991</u>	<u>6,230,625</u>	<u>2,376,577</u>	<u>3,822,858</u>

## 6 (Loss)/profit before taxation

(Loss)/profit before taxation is arrived at after charging/(crediting):

### (a) Finance costs

	Year ended 31 December			Six months ended 30 June	
	2016 RMB	2017 RMB	2018 RMB	2018 RMB (Unaudited)	2019 RMB
Interest on borrowings (Note 14(b))	<u>139,241</u>	<u>734,138</u>	<u>710,066</u>	<u>473,783</u>	<u>40,060</u>

*(b) Staff costs*

	Year ended 31 December			Six months ended 30 June	
	2016 RMB	2017 RMB	2018 RMB	2018 RMB (Unaudited)	2019 RMB
Contributions to defined contribution retirement plan	59,474	808,589	1,148,257	549,335	1,004,985
Salaries, wages and other benefits	985,954	5,232,000	7,206,082	3,100,000	5,257,396
	<u>1,045,428</u>	<u>6,040,589</u>	<u>8,354,339</u>	<u>3,649,335</u>	<u>6,262,381</u>

*(c) Other items*

	Year ended 31 December			Six months ended 30 June	
	2016 RMB	2017 RMB	2018 RMB	2018 RMB (Unaudited)	2019 RMB
Depreciation (note 10)	258,688	1,367,662	3,352,938	1,179,847	3,903,146
Amortisation (note 11)	–	–	21,340	–	–
Loss allowance/(reversal of loss allowance) of trade and other receivables	–	–	181,523	(6,640)	3,467,758
Total minimum lease payments for leases previously classified as operating leases under IAS 17	<u>–</u>	<u>1,368,468</u>	<u>3,111,216</u>	<u>1,208,088</u>	<u>–</u>

**7 Income tax**

No provision for PRC Corporate Income Tax for the Relevant Periods has been made as the Lvr run Group is subject to tax concessions under the relevant tax rules and regulations.

Reconciliation between income tax and (loss)/profit before taxation at applicable tax rates:

	Year ended 31 December			Six months ended 30 June	
	2016 RMB	2017 RMB	2018 RMB	2018 RMB (Unaudited)	2019 RMB
(Loss)/profit before taxation	<u>(2,724,732)</u>	<u>13,056,451</u>	<u>21,154,499</u>	<u>12,213,802</u>	<u>15,395,412</u>
Tax calculated at tax rates of 25%	(681,183)	3,264,113	5,288,625	3,053,451	3,848,853
Tax effects of unused tax loss not recognised	681,183	–	–	–	–
Tax effects of profits entitled to tax concession in the PRC	<u>–</u>	<u>(3,264,113)</u>	<u>(5,288,625)</u>	<u>(3,053,451)</u>	<u>(3,848,853)</u>
Income tax	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>



**8 Directors' emoluments**

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	Year ended 31 December			Six months ended 30 June	
	2016 RMB	2017 RMB	2018 RMB	2018 RMB (Unaudited)	2019 RMB
Directors' fees	–	–	–	–	–
Salaries, allowances and benefits in kind	171,250	240,000	288,000	144,000	330,000
Retirement scheme contributions	17,659	29,473	65,742	30,935	92,004
	<u>188,909</u>	<u>269,473</u>	<u>353,742</u>	<u>174,935</u>	<u>422,004</u>

**9 Individuals with highest emoluments**

Of the five individuals with the highest emoluments for the Relevant Periods, 3, 2, 2, 2, 2 of which for the years ended 31 December 2016, 2017 and 2018 and the six months ended 2018 and 2019 respectively are directors whose emoluments are included in Note 8. The aggregate of the emoluments in respect of the other 2, 3, 3, 3, 3, individuals are as follows:

	Year ended 31 December			Six months ended 30 June	
	2016 RMB	2017 RMB	2018 RMB	2018 RMB (Unaudited)	2019 RMB
Salaries and other emoluments	109,000	216,000	192,000	96,000	375,000
Retirement scheme contributions	9,889	26,426	55,337	23,562	127,519
	<u>118,889</u>	<u>242,426</u>	<u>247,337</u>	<u>119,562</u>	<u>502,519</u>

The emoluments of the individuals who are not directors and who are amongst the five highest paid individuals of the Lvr run Group are within the following bands:

	Year ended 31 December			Six months ended 30 June	
	2016 Number of Individuals	2017 Number of Individuals	2018 Number of Individuals	2018 Number of Individuals (Unaudited)	2019 Number of Individuals
HKD Nil – 1,000,000	<u>2</u>	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>

During the Relevant Periods, no emoluments were paid by the Lvr run Group to these individuals as an inducement to join or upon joining the Lvr run Group or as compensation for loss of office.

## 10 Property, plant and equipment

	Buildings <i>RMB</i>	Plant and machinery <i>RMB</i>	Motor vehicles <i>RMB</i>	Computer equipment <i>RMB</i>	Construction in progress <i>RMB</i>	Other properties leased for own use <i>RMB</i>	Total <i>RMB</i>
<b>Cost</b>							
At 1 January 2016	–	–	–	–	–	–	–
Additions	8,160,783	1,974,356	83,675	6,692	1,060,657	–	11,286,163
At 31 December 2016 and 1 January 2017	8,160,783	1,974,356	83,675	6,692	1,060,657	–	11,286,163
Additions	9,613,482	1,959,598	667,998	39,501	6,226,783	–	18,507,362
At 31 December 2017 and 1 January 2018	17,774,265	3,933,954	751,673	46,193	7,287,440	–	29,793,525
Additions	9,886,418	5,297,539	78,508	644,765	11,561,193	–	27,468,423
Acquisition of assets (Note 18)	39,252,310	3,508,741	–	52,930	–	–	42,813,981
Transfer	18,848,633	–	–	–	(18,848,633)	–	–
At 31 December 2018	85,761,626	12,740,234	830,181	743,888	–	–	100,075,929
Impact on initial application of IFRS 16	–	–	–	–	–	11,416,727	11,416,727
At 1 January 2019	85,761,626	12,740,234	830,181	743,888	–	11,416,727	111,492,656
Additions	33,120	1,439,299	8,089	170,014	714,035	–	2,364,557
At 30 June 2019	85,794,746	14,179,533	838,270	913,902	714,035	11,416,727	113,857,213
<b>Accumulated depreciation</b>							
At 1 January 2016	–	–	–	–	–	–	–
Charge for the year	239,836	12,697	5,420	735	–	–	258,688
At 31 December 2016 and 1 January 2017	239,836	12,697	5,420	735	–	–	258,688
Charge for the year	627,437	623,870	107,400	8,955	–	–	1,367,662
At 31 December 2017 and 1 January 2018	867,273	636,567	112,820	9,690	–	–	1,626,350
Charge for the year	1,911,071	1,147,024	184,327	110,516	–	–	3,352,938
At 31 December 2018 and 1 January 2019	2,778,344	1,783,591	297,147	120,206	–	–	4,979,288
Charge for the period	2,470,977	1,081,202	100,408	122,521	–	128,038	3,903,146
At 30 June 2019	5,249,321	2,864,793	397,555	242,727	–	128,038	8,882,434

	Buildings <i>RMB</i>	Plant and machinery <i>RMB</i>	Motor vehicles <i>RMB</i>	Computer equipment <i>RMB</i>	Construction in progress <i>RMB</i>	Other properties leased for own use <i>RMB</i>	Total <i>RMB</i>
<b>Net book value</b>							
At 30 June 2019	80,545,425	11,314,740	440,715	671,175	714,035	11,288,689	104,974,779
At 31 December 2018	82,983,282	10,956,643	533,034	623,682	–	–	95,096,641
At 31 December 2017	16,906,992	3,297,387	638,853	36,503	7,287,440	–	28,167,175
At 31 December 2016	7,920,947	1,961,659	78,255	5,957	1,060,657	–	11,027,475
<b>11 Interests in leasehold land held for own use under operating leases</b>							
						<i>RMB</i>	
At 1 January 2016, 31 December 2016, 1 January 2017, 31 December 2017 and 1 January 2018						–	
Additions ( <i>Note 18</i> )						11,438,067	
Amortisation						(21,340)	
At 31 December 2018						11,416,727	
Impact on initial application of IFRS 16						(11,416,727)	
At 1 January 2019 and 30 June 2019						–	
The interests in leasehold land held for own use under operating leases are amortised over the lease terms of 45 years using straight-line method.							

**12 Inventories**

	As at 31 December			As at 30 June
	2016 <i>RMB</i>	2017 <i>RMB</i>	2018 <i>RMB</i>	2019 <i>RMB</i>
Raw materials	–	433,481	1,399,350	452,320
Finished goods	19,052	251,603	1,409,417	1,504,496
	19,052	685,084	2,808,767	1,956,816

## 13 Trade and other receivables

	As at 31 December			As at 30 June
	2016 RMB	2017 RMB	2018 RMB	2019 RMB
Trade receivables	–	9,867,957	10,445,095	26,459,329
Bills receivables (note (a))	–	100,000	680,000	1,212,847
	–	9,967,957	11,125,095	27,672,176
Prepayments to suppliers	982,267	1,119,490	3,421,263	6,103,160
Deductible value added tax	526,142	37,735	543,863	525,074
Other receivables	3,000	828,427	2,526,754	4,605,784
	1,511,409	11,953,609	17,616,975	38,906,194
Less: Non-current prepayments	(982,267)	(1,119,490)	(3,421,263)	(6,103,160)
Current portion	529,142	10,834,119	14,195,712	32,803,034

All the current portion of trade and other receivables, net of loss allowance, are expected to be recovered or recognised as expense within one year.

*Notes:*

- (a) As at 31 December 2017, 2018 and 30 June 2019, bills receivables of the Lvr run Group include bills due from third parties. These receivables were not derecognised as the Lvr run Group remains exposed to the credit risk of these receivables.
- (b) Ageing analysis

As at 31 December 2016, 2017 and 2018 and 30 June 2019, the ageing analysis of trade and bills receivables (which are included in trade and other receivables), based on invoice date and net of loss allowance, is as follows:

	As at 31 December			As at 30 June
	2016 RMB	2017 RMB	2018 RMB	2019 RMB
Within 1 month	–	2,978,693	9,252,686	17,217,163
Over 1 month to 2 months	–	6,476,431	1,333,100	3,247,090
Over 2 months to 3 months	–	34,791	233,523	2,942,435
Over 3 months	–	378,042	305,786	4,265,488
	–	9,867,957	11,125,095	27,672,176

Trade and bills receivables are due within 45 days from the date of billing. Details on the Lvr run Group's credit policy and credit risk arising from trade and other receivables are set out in note 19(a).

## 14 Cash and cash equivalents and other cash flow information

## (a) Cash and cash equivalents comprise:

	As at 31 December			As at 30 June
	2016 RMB	2017 RMB	2018 RMB	2019 RMB
Cash at bank and on hand	979,327	349,866	37,882	3,989,073

## (b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Lvr run Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Lvr run Group's consolidated cash flow statement as cash flows from financing activities.

	Amount due to shareholders RMB (Note 16)	Amounts due to employees RMB (Note 15)	Interest payable RMB	Total RMB
At 1 January 2016	450,000	—	—	450,000
Changes from financing cash flows:				
Increase in amounts due to shareholders	4,950,000	—	—	4,950,000
Increase in amounts due to employees	—	2,717,000	—	2,717,000
Total changes from financing cash flows	4,950,000	2,717,000	—	7,667,000
Other changes:				
Interest expenses (Note 6(a))	—	—	139,241	139,241
At 31 December 2016	5,400,000	2,717,000	139,241	8,256,241
At 1 January 2017	5,400,000	2,717,000	139,241	8,256,241
Changes from financing cash flows:				
Increase in amounts due to shareholders	600,000	—	—	600,000
Repayment of amounts due to employees	—	(19,000)	—	(19,000)
Finance costs paid	—	—	(652,365)	(652,365)
Total changes from financing cash flows	600,000	(19,000)	(652,365)	(71,365)
Other changes:				
Interest expenses (Note 6(a))	—	—	734,138	734,138
At 31 December 2017	6,000,000	2,698,000	221,014	8,919,014

	Amount due to shareholders RMB (Note 16)	Amounts due to employees RMB (Note 15)	Interest payable RMB	Total RMB
At 1 January 2018	6,000,000	2,698,000	221,014	8,919,014
<b>Changes from financing cash flows:</b>				
Repayment of amounts due to shareholders	(6,000,000)	—	—	(6,000,000)
Repayment of amounts due to employees	—	(2,698,000)	—	(2,698,000)
Total changes from financing cash flows	(6,000,000)	(2,698,000)	—	(8,698,000)
<b>Other changes:</b>				
Interest expenses (Note 6(a))	—	—	710,066	710,066
At 31 December 2018	—	—	931,080	931,080
At 1 January 2019	—	—	931,080	931,080
<b>Changes from financing cash flows:</b>				
Finance costs paid	—	—	(40,060)	(40,060)
Total changes from financing cash flows	—	—	(40,060)	(40,060)
<b>Other changes:</b>				
Interest expenses (note 6(a))	—	—	40,060	40,060
At 30 June 2019	—	—	931,080	931,080
<b>(Unaudited)</b>				
At 1 January 2018	6,000,000	2,698,000	221,014	8,919,014
<b>Changes from financing cash flows:</b>				
Repayment of amounts due to shareholders	(6,000,000)	—	—	(6,000,000)
Repayment of amounts due to employees	—	(1,520,000)	—	(1,520,000)
Total changes from financing cash flows	(6,000,000)	(1,520,000)	—	(7,520,000)
<b>Other changes:</b>				
Interest expenses (Note 6(a))	—	—	473,783	413,783
At 30 June 2018	—	1,178,000	694,797	1,872,797

**15 Trade and other payables**

	As at 31 December			As at 30 June
	2016 RMB	2017 RMB	2018 RMB	2019 RMB
Trade payables	401,788	12,013,718	12,147,876	22,740,949
Receipts in advance from customers	71,300	352,041	–	–
Contract liabilities	–	–	1,349,148	642,909
Other tax payables	–	200,995	1,383,537	1,160,196
Amounts due to employees	2,717,000	2,698,000	–	–
Other accruals and payables	6,905,277	8,792,631	17,085,934	14,876,899
	<u>10,095,365</u>	<u>24,057,385</u>	<u>31,966,495</u>	<u>39,420,953</u>

All of the trade and payables are expected to be settled or recognised as income within one year or are repayable on demand.

At 31 December 2016, 2017 and 2018 and 30 June 2019, the ageing analysis of trade payables (which are included in trade and other payables), based on the invoice date is as follows:

	As at 31 December			As at 30 June
	2016 RMB	2017 RMB	2018 RMB	2019 RMB
Within 1 year	<u>401,788</u>	<u>12,013,718</u>	<u>12,147,876</u>	<u>22,740,949</u>

**16 Amounts due to shareholders**

The amounts due to shareholders are unsecured, non-interest bearing and repayable on demand.

## 17 Capital, reserves and dividends

(a) *Movements in components of equity*

The reconciliation between the opening and closing balances of each component of the Lvr run Group's consolidated equity during the Relevant Periods is set out in the consolidated statements of changes in equity. Details of the changes in Lvr run's individual components of equity between the beginning and the end of the Relevant Periods are set out below:

*Lvr run*

	<b>Paid-up capital</b> <i>RMB</i>	<b>(Accumulated losses)/ retained profits</b> <i>RMB</i>	<b>Total</b> <i>RMB</i>
Balance at 1 January 2016	100,000	(63,370)	36,630
Change in equity for 2016:			
Total comprehensive income for the year	–	(2,724,732)	(2,724,732)
Capital injection	730,000	–	730,000
Balance at 31 December 2016 and 1 January 2017	830,000	(2,788,102)	(1,958,102)
Change in equity for 2017:			
Total comprehensive income for the year	–	13,056,451	13,056,451
Balance at 31 December 2017 and 1 January 2018	830,000	10,268,349	11,098,349
Impact on initial application of IFRS 9	–	(12,351)	(12,351)
Adjusted balance at 1 January 2018	830,000	10,255,998	11,085,998
Change in equity for 2018:			
Total comprehensive income for the year	–	21,505,441	21,505,441
Capital injection	62,770,000	–	62,770,000
Balance at 31 December 2018 and 1 January 2019	63,600,000	31,761,439	95,361,439
Change in equity for the period:			
Total comprehensive income for the period	–	17,261,138	17,261,138
Balance at 30 June 2019	63,600,000	49,022,577	112,622,577
(Unaudited)			
Balance at 1 January 2018	830,000	10,268,349	11,098,349
Impact on initial application of IFRS 9	–	(12,351)	(12,351)
Adjusted balances at 1 January 2018	830,000	10,255,998	11,085,998
Change in equity for the period:			
Total comprehensive income for the period	–	12,213,802	12,213,802
Capital injection	3,400,000	–	3,400,000
Balance at 30 June 2018	4,230,000	22,469,800	22,469,800



**(b) Dividends**

Lvrn did not declare any dividends during the Relevant Periods.

**(c) Capital management**

The Lvrn Group's primary objectives when managing capital are to safeguard the Lvrn Group's ability to continue as a going concern, so that it can continue to provide returns for equity shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Lvrn Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher equity shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Lvrn is not subject to externally imposed capital requirements.

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Lvrn Group's business. The Lvrn Group's exposure to these risks and the financial risk management policies and practices used by the Lvrn Group to manage these risks are described below.

**18 Purchase of assets and assuming of liabilities**

In December 2018, Lvrn acquired 100% of equity interests in Leyuan New Material for a cash consideration of RMB53,600,000.

Prior to the acquisition, the principal activities of Leyuan New Material were leasing the land use rights and buildings to Lvrn. The underlying set of the assets acquired and liabilities assumed was not integrated in forming a business to generate revenue. As such, the directors consider the acquisition is a purchase of assets and assuming of liabilities which does not constitute a business combination for accounting purposes.

The directors considered that the total purchase consideration paid represented the fair value of assets acquired and the liabilities assumed. The acquisition had the following effect on the Lvrn Group's assets and liabilities on the acquisition date:

	<i>RMB</i>
Property, plant and equipment	42,813,981
Interests in leasehold land held for own use under operating leases	11,438,067
Trade and other receivables	547,474
Cash and cash equivalents	8,465
Trade and other payables	(1,207,987)
	<hr/>
Net identifiable assets and liabilities	53,600,000
	<hr/> <hr/>
Consideration paid, satisfied in cash	53,600,000
Cash acquired	(8,465)
	<hr/>
Net cash outflow	53,591,535
	<hr/> <hr/>

## 19 Financial risk management and fair values of financial instruments

## (a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Lvr run Group. The Lvr run Group's credit risk is primarily attributable to trade and other receivables. The Lvr run Group's exposure to credit risk arising from cash and cash equivalents is limited because the counterparties are banks and financial institutions with high credit standing, for which the Lvr run Group considers to have low credit risk.

The Lvr run Group does not provide any guarantees which would expose the Lvr run Group to credit risk.

**Trade and other receivables**

The Lvr run Groups exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Lvr run Group has significant exposure to individual customers. At 31 December 2017 and 2018 and 30 June 2019, 72%, 15% and 23% of the total trade receivables, respectively, was due from the Lvr run Group's largest debtor, and 88%, 52% and 49% of the total trade receivables, respectively, was due from the five largest debtors.

The Lvr run Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Lvr run Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Lvr run Group's different customer bases.

The following table provides information about the Lvr run Group's exposure to credit risk and ECLs for trade receivables as at 31 December 2018 and 30 June 2019.

	30 June 2019		
	Expected loss rate %	Gross carrying amount RMB	Loss allowance RMB
Current (not past due)	0.08%	19,192,008	(14,707)
1 – 30 days past due	0.61%	2,769,993	(16,923)
31 – 60 days past due	2.79%	1,599,604	(44,626)
61 – 90 days past due	11.52%	915,620	(105,470)
More than 90 days past due	61.66%	5,643,736	(3,479,906)
		<u>30,120,961</u>	<u>(3,661,632)</u>

31 December 2018			
	Expected loss rate %	Gross carrying amount RMB	Loss allowance RMB
Current (not past due)	0.16%	9,889,128	(16,149)
1 – 30 days past due	1.35%	33,256	(450)
31 – 60 days past due	5.21%	413,658	(21,562)
61 – 90 days past due	25.11%	177,807	(44,654)
More than 90 days past due	88.76%	125,120	(111,059)
		<u>10,638,969</u>	<u>(193,874)</u>

Expected loss rates are based on actual loss experience. These rates are adjusted to reflect differences between economic conditions during the period over which the historical data has been collected, current conditions and the Lvr run Group's view of economic conditions over the expected lives of the receivables.

Comparative information under IAS 39

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment (see Note 2(g)(i) – policy applicable prior to 1 January 2018). At 31 December 2017, no trade receivables were determined to be impaired. The aging analysis of trade debtors that were not considered to be impaired was as follows:

	31 December 2017 RMB
Neither past due nor impaired	9,403,213
1 – 30 days past due	51,912
31 – 60 days past due	88,293
61 – 90 days past due	159,450
More than 90 days past due	<u>165,089</u>
	<u>9,867,957</u>

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Lvr run Group. Based on past experience, management believed that no impairment allowance was necessary in respect of these balances as there had been no significant change in credit quality and the balances were still considered fully recoverable.

Movement in the loss allowance account in respect of trade receivables during the year is as follows:

	<b>2018</b> <i>RMB</i>	<b>2019</b> <i>RMB</i>
Balance at 1 January	12,351	193,874
Impairment losses recognised during the year/period	181,523	3,467,758
	<u>193,874</u>	<u>3,661,632</u>
Balance at 31 December/30 June	<u>193,874</u>	<u>3,661,632</u>

(b) **Liquidity risk**

The Lvr run Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table shows the remaining contractual maturities at the end of each reporting period of the Lvr run Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of each reporting period) and the earliest dates the Lvr run Group can be required to pay:

	<b>31 December 2016</b>		<b>Carrying amount at 31 December 2016</b> <i>RMB</i>
	<b>Contractual undiscounted cash outflow</b>		
	<b>Within 1 year or on demand</b> <i>RMB</i>	<b>Total</b> <i>RMB</i>	
Amount due to shareholders	5,400,000	5,400,000	5,400,000
Trade and other payables measured at amortised cost	10,095,365	10,095,365	10,095,365
	<u>15,495,365</u>	<u>15,495,365</u>	<u>15,495,365</u>
	<b>31 December 2017</b>		<b>Carrying amount at 31 December 2017</b> <i>RMB</i>
	<b>Contractual undiscounted cash outflow</b>		
	<b>Within 1 year or on demand</b> <i>RMB</i>	<b>Total</b> <i>RMB</i>	
Amount due to shareholders	6,000,000	6,000,000	6,000,000
Trade and other payables measured at amortised cost	24,057,385	24,057,385	24,057,385
	<u>30,057,385</u>	<u>30,057,385</u>	<u>30,057,385</u>

	31 December 2018		
	Contractual		
	undiscounted cash outflow		
	Within 1 year	Total	Carrying amount
	or on demand		at 31 December
	RMB	RMB	2018
			RMB
Trade and other payables measured at amortised cost	31,966,495	31,966,495	31,966,495
	31,966,495	31,966,495	31,966,495
	30 June 2019		
	Contractual		
	undiscounted cash outflow		
	Within 1 year	Total	Carrying amount
	or on demand		at 30 June
	RMB	RMB	2019
			RMB
Trade and other payables measured at amortised cost	39,420,953	39,420,953	39,420,953
	39,420,953	39,420,953	39,420,953

(c) **Interest rate risk**

Interest rate risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Lvr run Group does not subject to significant interest rate risk during the Relevant Periods.

(d) **Currency risk**

The Lvr run Group has minimal exposures to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in RMB. The Lvr run Group currently does not have a foreign current hedging policy in respect of foreign currency transactions, assets and liabilities. The Lvr run Group will monitor its foreign current exposures closely and will consider hedging significant foreign currency exposure should the need arise.

## 20 Material related party transactions

In addition to the balances and transactions disclosed elsewhere in the Historical Financial information, the Lvr run Group had the following material related party transactions during the Relevant Periods.

*Key management personnel remuneration*

Remuneration for key management personnel of the Lvr run Group, including amounts paid to Lvr run’s directors as disclosed in note 8 and certain of the highest paid employees as disclosed in note 9, is as follows:

	Year ended 31 December			Six months ended 30 June	
	2016 RMB	2017 RMB	2018 RMB	2018 RMB (Unaudited)	2019 RMB
Short-term employee benefits	171,250	312,000	360,000	180,000	330,000
Contributions to defined contribution plan	17,659	38,281	83,949	39,503	92,004
	<u>188,909</u>	<u>350,281</u>	<u>443,949</u>	<u>219,503</u>	<u>422,004</u>

Total remuneration is included in “staff costs” (see Note 6(b)).

**21 Immediate and ultimate controlling party**

At 30 June 2019, the directors of Lvr run consider the immediate and ultimate controlling party of Lvr run to be Dugong Limited, which is incorporated in Hong Kong. This entity does not produce financial statements available for public use.

## APPENDIX IIB FINANCIAL INFORMATION OF THE LVRUN GROUP

### 22 Statement of financial position of Lvr run

		As at 31 December			As at
		2016	2017	2018	30 June
	Note	RMB	RMB	RMB	2019
					RMB
<b>Non-current assets</b>					
Property, plant and equipment		11,027,475	28,167,175	52,612,262	52,936,948
Investment in a subsidiary		—	—	53,600,000	53,600,000
Prepayments		982,267	1,119,490	3,303,061	5,768,480
		<u>12,009,742</u>	<u>29,286,665</u>	<u>109,515,323</u>	<u>112,305,428</u>
<b>Current assets</b>					
Inventories		19,052	685,084	2,808,767	1,956,816
Trade and other receivables		529,142	10,834,119	14,974,427	33,812,639
Cash and cash equivalents		979,327	349,866	29,417	3,968,647
		<u>1,527,521</u>	<u>11,869,069</u>	<u>17,812,611</u>	<u>39,738,102</u>
<b>Current liabilities</b>					
Trade and other payables		10,095,365	24,057,385	31,966,495	39,420,953
Amount due to shareholders		5,400,000	6,000,000	—	—
		<u>15,495,365</u>	<u>30,057,385</u>	<u>31,966,495</u>	<u>39,420,953</u>
<b>Net current (liabilities)/assets</b>		<u>(13,967,844)</u>	<u>(18,188,316)</u>	<u>(14,153,884)</u>	<u>317,149</u>
<b>NET (LIABILITIES)/ASSETS</b>		<u>(1,958,102)</u>	<u>11,098,349</u>	<u>95,361,439</u>	<u>112,622,577</u>
<b>CAPITAL AND RESERVES</b>					
Paid-up capital	17	830,000	830,000	63,600,000	63,600,000
Reserve		(2,788,102)	10,268,349	31,761,439	49,022,577
<b>TOTAL (DEFICIT)/EQUITY</b>		<u>(1,958,102)</u>	<u>11,098,349</u>	<u>95,361,439</u>	<u>112,622,577</u>

### 23 Possible impact of amendments, new standards and interpretations issued but not yet effective for the Relevant Periods

Up to the date of issue of Historical Financial Information, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the Relevant Periods and which have not been adopted in this Historical Financial Information. These include the following which may be relevant to the Lvr run Group.

#### Effective for accounting periods beginning on or after

Amendments to IFRS 3, *Definition of a business* 1 January 2020

Amendments to IAS 1 and IAS 8, *Definition of material* 1 January 2020

The Lvr run Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Historical Financial Information.

### SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Lvr run or any of its subsidiaries in respect of any period subsequent to 30 June 2019.

**(2) MANAGEMENT DISCUSSION AND ANALYSIS ON THE LVRUN GROUP FOR EACH OF THE THREE YEARS ENDED 31 DECEMBER 2018**

Set out below is the management discussion and analysis of the Lvr run Group for the financial years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019 (the “**Relevant Periods**”). The following discussion and analysis should be read in conjunction with the accountants’ report of the Lvr run Group as set out in Appendix IIB to this circular.

Lvr run was incorporated in the PRC on 16 November 2015 as a Sino-foreign joint venture enterprise and is located at No. 8, Huanghe Road, Donghai Economic Development Zone, Lianyungang City, Jiangsu Province.

**Revenue**

Revenue of the Lvr run Group for the Relevant Periods was only derived from Lvr run and was set out as follows:

	Year ended 31 December			Six months ended
	2016	2017	2018	30 June 2019
	RMB’000	RMB’000	RMB’000	RMB’000
Hazardous waste treatment services	–	42,943	70,375	53,245
Sales of chemical products	–	76	359	921
	–	43,019	70,734	54,166

The revenue of the Lvr run Group, which mainly engages in the provision of hazardous waste treatment services in Dong Hai, Lianyungang, Jiangsu province. The hazardous waste contains 9 kinds of metals such as iron, copper, nickel, chromium, aluminium, manganese, zinc, cobalt and magnesium. The commercial operation of Lvr run only commenced in February 2017 and therefore no revenue was recorded in the year ended 31 December 2016. The revenue of the Lvr run Group for the two years ended 31 December 2018 and 2017 were RMB70,734,000 and RMB43,019,000 respectively and the six months ended 30 June 2019 was RMB54,166,000. The increase in revenue was primarily attributable to the increase in industrial activities in the Jiangsu Province and the expansion in the scale of Lvr run’s business.



**Other Net Income**

The other net income for the three years ended 31 December 2018, 2017 and 2016 were RMB6,231,000, RMB759,000 and RMB465 respectively and the six months ended 30 June 2019 was RMB3,823,000. The increase in 2018 was primarily attributable to a refund of value-added-tax from the relevant authority.

**Selling and distribution Costs**

No selling and distribution costs was recorded in the year ended 31 December 2016 since the commercial operation only commenced in February 2017. The selling and distribution costs for the two years ended 31 December 2018 and 2017 were RMB12,378,000 and RMB4,044,000 respectively and the six months ended 30 June 2019 was RMB11,547,000. The changes was primarily attributable to the expansion of the business and the increase in demand of hazardous waste treatment.

**Administrative Expenses**

The administrative expenses of the Lvr run Group for the three years ended 31 December 2018, 2017 and 2016 were RMB18,850,000, RMB5,898,000 and RMB2,586,000 respectively and the six months ended 30 June 2019 was RMB14,809,000. The significant increase in 2018 was primarily attributable to the increase in the scale of business and the corresponding increase in staff costs and other costs including research and development costs. The increase in 2017 was mainly due to increase in staff costs and other administrative expenses since commercial operation in February 2017. The increase in the six months ended 30 June 2019 was due to an increase in provision for expected loss on trade and other receivables.

**Finance Costs**

Finance costs represents interest expenses payable to loans from employees of the Lvr run Group for the three years ended 31 December 2018, 2017 and 2016 and the six months ended 30 June 2019, which were RMB710,000, RMB734,000, RMB139,000 and RMB40,000 respectively.

**Liquidity and Financial Resources**

The Lvr run Group generally finances its operations with the initial funding from its shareholders and cash flows generated internally and from its operating activities. As at 31 December 2018, 2017 and 2016, the Lvr run Group had current assets of RMB17,042,000, RMB11,869,000 and RMB1,528,000 respectively and as at 30 June 2019 was RMB38,749,000. Total net current liabilities as at 31 December 2018, 2017 and 2016 were RMB14,924,000, RMB18,188,000 and RMB13,968,000 respectively and the Lvr run Group had net current liabilities of RMB672,000 as at 30 June 2019. The improvement in net current liabilities was in line with the increase in operating activities during the Relevant Periods.

**Capital Structure**

The Lvrn Group had no bank borrowing during the Relevant Periods. The capital structure of the Lvrn Group consists of amounts due to shareholders and equity attributable to its shareholders. As at 31 December 2017 and 2016, the Lvrn Group had amounts due to shareholders of RMB6,000,000 and RMB5,400,000 respectively and the amounts due to shareholders were fully repaid as at 31 December 2018. No amounts was due to shareholders as at 30 June 2019.

**Foreign Exchange Risks**

The Lvrn Group operates its business in the PRC only, and the majority of transactions are denominated in RMB. The Lvrn Group therefore had minimal exposure to foreign exchange risk as RMB is the main currency used during the three years ended 31 December 2018, 2017, 2016 and the six months ended 30 June 2019. The Board does not expect any material impact on the Lvrn Group's operations caused by any foreign currency exchange rate fluctuations. Most of the cash held by the Lvrn Group are denominated in RMB and deposits are only placed with banks of good credit ratings. No financial instruments were employed by the Lvrn Group for hedging purpose during the aforesaid periods.

**Charge of Assets**

As at 30 June 2019, none of the Lvrn Group's assets was subject to any charge.

**Contingent Liabilities**

As at 31 December 2018, 2017, 2016 and at 30 June 2019, the Lvrn Group had no material contingent liabilities.

**Material Investments, Acquisitions and Disposals**

The Lvrn Group did not have any material investments, acquisitions or disposals during the three years ended 31 December 2018, 2017 and 2016 and the six months ended 30 June 2019.

**Employees and Remuneration Policy**

As at 31 December 2018, 2017, 2016 and at 30 June 2019, the Lvrn Group employed 94, 120, 16 and 127 employees respectively. The Lvrn Group offered competitive remuneration package, discretionary bonuses and social insurance benefits to its employees. For the three years ended 31 December 2018, 2017 and 2016, the Lvrn Group's staff costs were approximately RMB8,354,000, RMB6,041,000 and RMB1,045,000 respectively and the six months ended 30 June 2019 was RMB6,262,000. The Lvrn Group has not adopted any share option scheme.

**Capital Commitments**

As at 30 June 2019, the Lvrn Group has no significant capital commitments.

**Outlook and Future Prospect**

Before 2015, the generation of hazardous waste in Jiangsu Province had increased at an annual rate of around 10%. In recent years, following the strict implementation of environmental rules and regulations, the average annual growth rate had been increased to over 30%. With such notable increase in hazardous waste quantity, the current total treatment capacity within the Jiangsu Province to recycle the hazardous waste is insufficient to cater for the increase in market demand. The gap even widened when the substandard treatment facilities were being forced to close down under the strict enforcement of the environmental rules and regulations. This had been reflected on the increase in local hazardous waste treatment prices.

Looking ahead, the Lvrun Group is contemplating a Phase II expansion in 2020 which enhances its treatment capacity and brings in greater synergy and production efficiency. Such increased capacity would allow the Lvrun Group to further penetrate into the hazardous waste treatment market in the Jiangsu Province and to compete with other market players in the region. Together with the process automation on its existing operation completed in 2019 and strengthening of its sales management, the Lvrun Group is able to capture any potential opportunities to provide a comprehensive and quality treatment service and generate satisfactory returns.

Furthermore, the Target Group had recently established a new joint venture project in Kaifeng City, Henan Province to construct a hazardous waste treatment line and an incineration facility to deliver comprehensive hazardous waste treatment services. This would strategically expand the Target Group's presence geographically and maintain its growth momentum.

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<b>APPENDIX III</b>	<b>UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP</b>
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**UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP**

**A. Basis of Preparation**

The following is an unaudited pro forma consolidated statement of assets and liabilities of the Group immediately upon Completion (the “Unaudited Pro Forma Consolidated Statement of Assets and Liabilities”) which has been prepared in accordance with paragraph 4.29 of the Listing Rules for the purpose of illustrating the effect of the proposed acquisition of 40% equity interest in Dugong IWS HAZ Limited (the “Transaction”) as if the Transaction had been completed on 30 September 2019.

The Unaudited Pro Forma Consolidated Statement of Assets and Liabilities is prepared based on the unaudited consolidated statement of financial position of the Group as at 30 September 2019 which has been extracted from the published interim report of the Company for the six months ended 30 September 2019, after making unaudited pro forma adjustments relating to the Transaction that are (i) directly attributable to the Transaction and not relating to other future events or decisions; and (ii) factually supportable as if the Transaction had been undertaken as at 30 September 2019.

The Unaudited Pro Forma Consolidated Statement of Assets and Liabilities has been prepared by the Directors based on a number of assumptions, estimates and uncertainties for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated assets and liabilities of the Group upon completion of the Transactions as at 30 September 2019 or any future date.

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**APPENDIX III      UNAUDITED PRO FORMA FINANCIAL INFORMATION  
OF THE ENLARGED GROUP**

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**B.      Unaudited Pro Forma Consolidated Statement of Assets and Liabilities**

	<b>The Group as at 30 September 2019 <i>HK\$'000</i> <i>Note 1</i></b>	<b>Pro forma adjustments <i>HK\$'000</i> <i>Note 2 – 5</i></b>	<b>The Enlarged Group <i>HK\$'000</i></b>
<b>Non-current assets</b>			
Property, plant and equipment	640,999		640,999
Right-of-use assets	33,113		33,113
Interests in joint ventures	24,836		24,836
Interest in associate	–	69,000	69,000
Loan to associate	–	32,256	32,256
	<u>698,948</u>		<u>800,204</u>
<b>Current assets</b>			
Inventories	4,955		4,955
Trade and bills receivables	11,659		11,659
Other receivables, deposits and prepayments	14,941		14,941
Amounts due from joint ventures	55,897		55,897
Amount due from a related company	12		12
Bank deposits and cash	150,041	(101,256)	48,785
	<u>237,505</u>		<u>136,249</u>
<b>Current liabilities</b>			
Trade payables	2,391		2,391
Other payables, accruals and contract liabilities	18,099		18,099
Lease liabilities	1,699		1,699
Amount due to a related company	10		10
	<u>22,199</u>		<u>22,199</u>
<b>Net current assets</b>	<u>215,306</u>		<u>114,050</u>
<b>Total assets less current liabilities</b>	<u>914,254</u>		<u>914,254</u>
<b>Non-current liabilities</b>			
Lease liabilities	1,239		1,239
<b>Net assets</b>	<u>913,015</u>		<u>913,015</u>

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## **APPENDIX III      UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP**

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### **Notes to the Unaudited Pro Forma Financial Information of the Enlarged Group**

1. The figures are extracted from the unaudited consolidated statement of financial position of the Group as at 30 September 2019 as set out in the published interim report of the Company for the six months ended 30 September 2019.
2. Pursuant to the SP Agreement, the Group has conditionally agreed to purchase 40% equity interest of Dugong IWS HAZ Limited (the Target Company) at a consideration of HK\$69,000,000, which will be settled in cash. Upon Completion, the Target Company will be recognised as an associate of the Company.
3. Upon Completion, the Group will be assigned the rights, interests, title, claims and benefits in and to, and its obligations under, the Shareholder's Loan Agreement, which requires the Group to make a shareholder's loan in the maximum amount of RMB28,800,000 (equivalent to approximately HK\$32,256,000) to the Target Company.
4. The pro forma adjustments are converted from RMB into Hong Kong dollars at the rate of RMB1 to HKD1.12.
5. No adjustment has been made to reflect any operating results or other transactions of the Group entered into subsequent to 30 September 2019.

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## APPENDIX III      UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

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*The following is the text of a report received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong, in respect of the Group's pro forma financial information for the purpose in this circular.*



8th Floor  
Prince's Building  
10 Chater Road  
Central  
Hong Kong

31 December 2019

### **INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION**

#### **TO THE DIRECTORS OF INTEGRATED WASTE SOLUTIONS GROUP HOLDINGS LIMITED**

We have completed our assurance engagement to report on the compilation of pro forma financial information of Integrated Waste Solutions Group Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The pro forma financial information consists of the unaudited pro forma consolidated statement of assets and liabilities as at 30 September 2019 and related notes as set out in Part A of Appendix III to the circular dated 31 December 2019 (the "Circular") issued by the Company. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in Part A of Appendix III to the Circular.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed acquisition of 40% equity interest of Dugong IWS HAZ Limited (the "Transaction") on the Group's financial position as at 30 September 2019 as if the Transaction had taken place at 30 September 2019. As part of this process, information about the Group's financial position as at 30 September 2019 has been extracted by the Directors from the interim report of the Group for the six months ended 30 September 2019, on which a review report has been published.

#### **Directors' Responsibilities for the Pro Forma Financial Information**

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

### **Our Independence and Quality Control**

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

### **Reporting Accountants’ Responsibilities**

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

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

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of events or transactions as at 30 September 2019 would have been as presented.



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## APPENDIX III      UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

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A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Opinion**

In our opinion:

- a) the pro forma financial information has been properly compiled on the basis stated;
- b) such basis is consistent with the accounting policies of the Group, and
- c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

**KPMG**

*Certified Public Accountants*

Hong Kong

*The following is the text of a report received from Shanghai Rödl & Partner, Certified Public Accountant Partnership, an independent valuer, in connection with its valuation as at 30 June 2019 of the fair value of the 100% equity interest in Lvr run, for inclusion in this circular.*

## **Shanghai Rödl & Partner**

*Certified Public Accountants Partnership*

### **VALUATION REPORT**

#### **1. ABBREVIATIONS**

<b>Full Name</b>	<b>Short name</b>
Integrated Waste Solutions Group Holdings Limited	Company
Lianyungang Lvr run Environmental Protection Technology Co., Ltd.	Lvr run
Lianyungang Leyuan New Material Technology Co., Ltd.	Leyuan New Material
Lianyungang Lvr run Environmental Protection Technology Co., Ltd. and its subsidiary Leyuan New Material	Lvr run Group
Dugong IWS HAZ Limited	Target Company
IWS Engineering Company Limited	IWS Engineering
Intelligent Goal Holdings Limited	Vendor
The Sale and Purchase Agreement	SP Agreement
People's Republic of China	PRC
The 6-year financial projections of the Lvr run Group	The Projection
The management of the Lvr run Group and/or the Company	The Management
International Financial Reporting Standards	IFRSs
International Accounting Standards Board	IASB
Discounted cash flow	DCF
Capital Expenditure	CAPEX
Capital Asset Pricing Model	CAPM
Days Sale Outstanding	DSO
Days Procurement Outstanding	DPO
Renminbi	RMB
Gross domestic product	GDP
Value-added tax	VAT

## **2. ENGAGEMENT AND SCOPE OF WORK**

### **2.1 General Information**

We have been instructed by Integrated Waste Solutions Group Holdings Limited (the “Company”) to perform a valuation of the fair value of a 100% equity interest in the business enterprise of Lianyungang Lvrn Environmental Protection Technology Co., Ltd. (hereinafter referred to as “Lvrn”, together with its subsidiary referred to as the “Lvrn Group”) as at 30 June 2019 (the “Valuation Date”) for transaction purpose and our valuation will also be used in connection with a public document of the Company.

Lvrn is a company incorporated in Donghai County, Jiangsu Province of the People’s Republic of China (the “PRC”) on 16 November 2015. As at the Valuation Date, Lvrn is owned as to 51% by Dugong IWS HAZ Limited (the “Target Company”) and 49% by four individuals.

Lvrn holds 100% share of Leyuan New Material Technology Co., Ltd. (“Leyuan New Material”), which solely holds the land-use-right and buildings that Lvrn uses as the plant. Leyuan New Material does not operate, and will be merged into Lvrn.

In this valuation, fair value is defined as the price a willing buyer would pay a willing seller in a transaction on the open market.

The fair value of the equity interest in the Lvrn Group is principally derived by the application of the discounted cash flows method under income approach. Our indication of value relies on a going-concern premise. This premise assumes that the Lvrn Group is the ongoing business enterprises with management operating in a rational way with a goal of maximizing shareholder value.

### **2.2 Description of the Valuation**

IWS Engineering Company Limited (“IWS Engineering”), a subsidiary of the Company intends to enter into the Sale and Purchase Agreement (the “SP Agreement”) with Intelligent Goal Holdings Limited (the “Vendor”) pursuant to which IWS Engineering has conditionally agreed to acquire and the Vendor will conditionally agree to sell 40% of the issued share capital of the Target company.

The objective of this valuation is to provide an independent assessment on the fair value of a 100% equity interest of the Lvrn Group for transaction purpose. We understand that our valuation will also be used in connection with a public document of the Company.

The valuation is conducted in conformity with applicable International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (“IASB”) and the International Valuation Standards. These standards contain guideline on the basis and valuation approaches used.

### **2.3 Scope of Work, Sources and Limitations**

This valuation reflects facts and conditions existing as at the Valuation Date. Subsequent events have not been considered and we are not required to update our report for such events and conditions.

Our valuation is based on the assumptions stated herein and on information provided by the management of the Lvr run Group and/or the Company (the “Management”).

In the course of our valuation, we have conducted the following processes and procedures:

- 1) Collected the relevant historical financial statements audited by KPMG Hongkong and other financial and operational information of the Lvr run Group from the Management;
- 2) Reviewed the terms of the SP Agreement;
- 3) Conducted interviews with the Management in relation to the history, operations and business prospects of the Lvr run Group;
- 4) Researched the general economic outlook and the outlook for the specific industry affecting the business of the Lvr run Group, their industry and their markets;
- 5) Analyzed the historical financial statements of the Lvr run Group;
- 6) Examined the reasonableness of the information as well as other records and documents provided by the Management, in light of our research and analysis on the industry and economic data as mentioned in this report;
- 7) Determined the most appropriate valuation method for this valuation;
- 8) Identified the comparable companies of the Lvr run Group;
- 9) Developed the appropriate discount rate that reflects the return of entities engaged in a similar line of business and returns from other similar types of projects of the Lvr run Group;
- 10) Reviewed the underlying assumptions of the 6-year financial projections of the Lvr run Group (the “Projection”) furnished to us by the Management; and
- 11) Calculated the business enterprise value of the Lvr run Group based on the assumptions and valuation methods stated in the report.

We discussed the projection period of 1 July 2019 through 31 December 2024 (the “Projection Period”) with the Management and understood that the 6-year financial projection is reasonably long enough to capture the business cycle until the Lvr run Group run into a stable development stage.

To aid us in our analysis of the Lvr run Group, we have consulted, reviewed and relied on the key information, including but not limited to, the followings which is publicly available or provided by the Management:

- 1) Financial database empowered by IFinD;
- 2) Relevant industry report and economic data;
- 3) Historical financial audited by KPMG Hongkong and operational information of the Lvr run Group;
- 4) The SP Agreement;
- 5) The Projection; and
- 6) Discussions with the Management.

This valuation relies upon the following contingent and limiting conditions:

IFinD is a commonly used financial information database published in year 2010 by Hithink Royalflush Information Network Co., Ltd., a listed entity in the PRC. The database contains the data of public companies from the PRC and HK stock exchanges, social and economic statistics, industry research report, etc. The major customers are private equity funds, banks, institutional investors, other investors, consulting firms.

- 1) Public, industry, statistical, and other information furnished by others, upon which all or portions of this analysis is based, is believed to be reliable. However, we make no representation as to the accuracy or completeness of such information and have performed no procedures to corroborate the information.
- 2) The Lvr run Group and its representatives warranted to us that the information they supplied was complete and accurate to the best of their knowledge and that the financial statement information reflects the results of operations and financial and business condition of the Lvr run Group in accordance with generally accepted accounting principles, unless otherwise noted. The financial statements and other related information supplied by the Management has been accepted as correct without further verification. We have not audited, reviewed, or compiled the financial information provided to us and, accordingly, we express no audit opinion or any other form of assurance on this information. We also have no reason to believe that any material facts have been withheld from us.
- 3) This report is to be used for the specific purposes stated herein and any other use is invalid. No one should rely on our report as a substitute for their own due diligence. No reference to our name or our report, in whole or in part, in any document to be prepared or distributed to third parties may be made without our written consent and approval.

- 4) The indication of value is valid only for the stated purpose as of the Valuation Date indicated. We take no responsibility for the changes in market conditions and assume no obligation to revise our conclusion of value to reflect events or conditions which occur subsequent to the valuation date.
- 5) For the prospective financial information approved by the Management that was used in our engagement, we have not examined or compiled the prospective financial information and therefore, do not express an audit opinion or any other form of assurance on the prospective financial information or the related assumptions. Events and circumstances frequently do not occur as expected and there will usually be differences between prospective financial information and actual results, and those differences may be material.
- 6) In arriving at our indication of value, we have relied to a very considerable extent on the above-mentioned information. Any variation to the assumptions in the valuation could seriously affect our indication of value.

### **3. VALUATION OF THE LVRUN GROUP**

#### **3.1 Information of the Company**

The Company, Integrated Waste Solutions Group Holdings Limited, is an exempted company incorporated in the Cayman Islands and whose issued shares are listed on the Main Board of the Stock Exchange (stock code: 923), and the holding company of IWS Engineering.

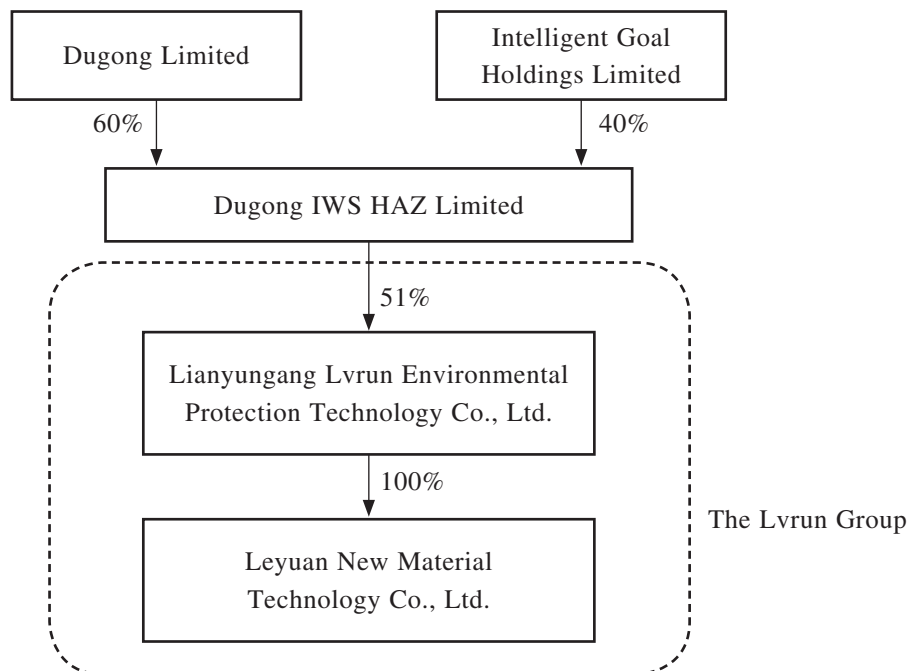
IWS Engineering is a company incorporated and existing under the laws of Hong Kong, having its registered office at Integrated Waste Solutions Building, 8 Chun Cheong Street, Tseung Kwan O Industrial Estate, New Territories, Hong Kong and company number 2227877.

#### **3.2 Information of the Vendor**

The Vendor, Intelligent Goal Holdings Limited is a company incorporated and existing under the laws of the British Virgin Islands, having its registered office at Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgins Islands and company registration number 2020762.

### 3.3 Information of the Lvr run Group

The group structure of the Lvr run Group right before the said acquisition was:



Lianyungang Lvr run Environmental Protection Technology Co., Ltd. (連雲港綠潤環保科技有限公司), is a limited liability company established on 16 November 2015 and existing in the PRC with company number 91320722MA1MB7TW44.

The subsidiary of Lvr run, Leyuan New Material Technology Co., Ltd. (連雲港樂園新材料科技有限公司), is a limited liability company established on 26 December 2008 and existing in the PRC with company number 91320722684107115Q.

### 3.4 Industry Overview

#### *Regulations*

Solid or liquid waste that is corrosive, toxic, flammable, reactive or infectious or possibly has a detrimental effect on health of people or the environment is defined as hazardous waste. According to the National Hazardous Waste List (Revised 2019), hazardous waste can be subdivided into 46 categories and hundreds of subcategories, which mostly come from industrial production and medical facilities.

The growth of the Economy led to the increase of the output volume of hazardous waste. To manage the development, the regulations were gradually implemented. Since year 2012, the government started to put high pressure on the monitoring of disposal of hazardous waste and in year 2018, the Ministry of Ecology and Environment of the People's Republic of China started an action of "Waste Clean 2018" that focused on the illegal environmental activities along the Yangtze River side.

The national regulation clearly requires the procedures if the hazardous waste should be transported across the province and each province has further different practices to manage and in general control strictly the across-province transportation of hazardous waste. As a result, the hazardous wastes are now more often disposed and treated within the province.

Moreover, a specific license should be applied for treatment of hazardous waste and should be renewed in case of expiry or upon expansion. The license includes a capacity volume and in-scope categories of hazardous waste treatment. The hazardous waste treatment entities cannot operate out of the set volume and categories.

#### *Market Overview*

Chinese Economy grows fast and steadily in the past decade. According to the Statistical yearbook of China<sup>1</sup>, published by the National Bureau of State Statistics of China, the National GDP grows from 25.0 trillion RMB in year 2007 to 82.7 trillion RMB in year 2017. In year 2018 and the first three quarters of year 2019, the GDP growth achieves respectively 6.6% and 6.2%.

Economy in Jiangsu province keeps the same growth and in general occupies in average 10.4% of the whole China from the view of GDP. According to the Statistical yearbook of China, published by the National Bureau of State Statistics of China, the GDP of Jiangsu Province grows from 2.6 trillion RMB in year 2007 to 8.6 trillion RMB in year 2017.

<sup>1</sup> Reference of URL : [www.stats.gov.cn/tjsj/ndsj](http://www.stats.gov.cn/tjsj/ndsj)



According to the Statistical yearbook of China, published by the National Bureau of State Statistics of China, the statistics can be summarized as follows:

Items	Unit	2007	2017
GDP National	Trillion RMB	25.0	82.7
GDP Jiangsu	Trillion RMB	2.6	8.6
Output volume of Hazardous waste – National	Ten thousand tons	1079	6936.89
Output volume of Hazardous waste – Jiangsu	Ten thousand tons	135	435.52

However, according to the second data source from the first national pollution source census bulletin<sup>2</sup>, published also by the National Bureau of State Statistics of China in year 2010, the output volume of Hazardous waste – National in year 2007 is 4573.69 ten thousand tons, which is four times of the Statistical yearbook of china. The difference is explained in many industry reports that the statistics in the Statistical yearbook of china were collected via self-declaration by enterprises and there were also differences of statistical caliber. It was then concluded by the industry experts that the statistics in the Statistical yearbook of china could be understated and there were higher hidden volume of hazardous waste that were produced during the time, out of the statistics. By referring to the Compound Annualized Growth Rate (the “CAGR”) from year 2011 to year 2017 at 12.4%, the output volume of hazardous waste in China could reach 14784.06 ten thousand tons in year 2017, based on the result of the first national pollution source census bulletin. The second national pollution source census bulletin is not yet finalized and will research on the base year of 2018.

The demand is high according to above researches, while on the supply side, in response to the policy of the national government, the provincial government speeded up the approval of new facilities of hazardous waste treatment. According to the Annual Report on Prevention and Control of Environmental Pollution by Solid Wastes in Large and Medium Cities, the quantity of licenses has been increased by over 10% in the period from year 2006 to year 2017, however the actual volume of Hazardous Waste Treatment is still significantly lower than the approved capacity, i.e. 20% - 30%, due to various of reasons, e.g. delay of construction due to technical reasons or lack of competent work force.

Due to the shortage of supply in the short run, the business opportunity existed, and merge & acquisition was intensified, and many cross-border giants enter into the market, e.g. Agile real estate. Therefore, the market is in the trend of convergence to key big players.

### 3.5 Valuation Methodology

In order to conclude our valuation, we have considered the three generally accepted approaches to valuation: market approach; income approach and cost approach and adopted the approaches deemed most relevant will then be selected for use.

<sup>2</sup> Reference of URL: [www.stats.gov.cn/tjsj/tjgb/qttjgb/qgqttjgb/201002/t20100211\\_30641.html](http://www.stats.gov.cn/tjsj/tjgb/qttjgb/qgqttjgb/201002/t20100211_30641.html)

***Market Approach***

The market approach references actual transactions in the equity of the enterprise being valued or transactions in similar enterprises that are traded in the public markets. Third-party transactions in the equity of an enterprise generally represent the best estimate of fair market value if they are done at arm's length. In using transactions from similar enterprises, there are two primary methods. The first, often referred to as the Guideline Transactions Method, involves determining valuation multiples from sales of enterprises with similar financial and operating characteristics and applying those multiples to the subject enterprise. The second, often referred to as the Guideline Public Company Method, involves identifying and selecting publicly traded enterprises with financial and operating characteristics similar to the enterprise being valued. Once publicly traded enterprises are identified, valuation multiples can be derived, adjusted for comparability, and then applied to the subject enterprise to estimate the value of its equity or invested capital.

***Income Approach***

The income approach is based on the premise that the value of a security or asset is the present value of the future earning capacity that is available for distribution to investors in the security or asset. A commonly used methodology under the income approach is a discounted cash flow ("DCF") analysis. A DCF analysis involves forecasting the appropriate cash flow stream over an appropriate period and then discounting it back to a present value at an appropriate discount rate. This discount rate should consider the time value of money, inflation, and the risk inherent in ownership of the asset or security interest being valued.

***Cost Approach***

A third approach to the valuation is the cost approach. The discrete valuation of an asset using an asset-based approach is based upon the concept of replacement as an indicator of value. A prudent investor would pay no more for an asset than the amount for which he or she could replace the asset new. A commonly used methodology under the cost approach is the Adjusted Net Assets Value Method which calls for a summation of the fair values of all assets belonging to an entity and a reduction of that aggregate by the fair values of that entity's total liabilities. The fair value is represented by the adjusted book value of total assets net of liabilities owed to any person other than the beneficial owners of the subject company, after adjusting for any necessary discounts or premiums to the book values of the assets and liabilities to reflect their market values.

***Selected Approach***

We have determined to adopt the income approach as the appropriate valuation method mainly based on the fact that the Management is able to provide a set of cash flow forecast with supportable, verifiable and explainable assumptions. These forecasts included projections of different streams of revenue, costs of revenue, operating expenses, administrative expenses, working capital projection and the expected capital expenditure of the Lvr run Group over the forecast period. The cost approach is not appropriate as it cannot independently recognize the economic benefits of ownership of the business. The market approach is not appropriate due to the

fact that the Lvr run Group is private and a project company with operational function solely. Direct comparison with public companies is less preferred due to the fact that guideline company and valuation subject rarely are exactly the same in organizational structure and development stage. The income approach was considered to be the most appropriate valuation approach in the valuation, as it takes the firm-specific issues of the Lvr run Group into consideration.

### 3.6 Income Approach

Performing a discounted cash flow analysis requires the preparation and analysis of a reliable forecast of the expected future financial performance of the Lvr run Group. Forecasting cash flow to all investors requires the projection of revenues, operating expenses, taxes, working capital requirements, and capital expenditures for a future period.

Projected cash flow to shareholders must then be discounted to a present value using a discount rate, which appropriately accounts for the market cost of capital as well as the risk and nature of the subject cash flows. Finally, an assumption must be made regarding the sustainable long-term rate of earnings growth at the end of the projection period, and a terminal or residual value of the remaining cash flows must be estimated and discounted to a present value. The sum of the present values of the projected cash flows and the terminal value equals the value of the enterprise.

The following section presents some of the key assumptions of the financial forecast used in the DCF analysis performed in this valuation. The Projection was prepared for the period from 1 July 2019 through 31 December 2024 (the “Projection Period”), and no terminal growth rate was used. The Projection was based on the historical financial information of year 2017, year 2018 and the first half of year 2019.

#### *Forecast Profit & Loss Account*

For purposes of our performing this analysis, the Management provided a detailed revenue and expense forecast. The revenue forecast included a projection of revenues by source, including home fee income, other service fees and government grants. The expense forecast included a projection of personnel costs and operating expenses related to revenue. Income taxes had been estimated by applying the corresponding effective income tax rate, as estimated by the Management.

Revenue: Revenue mainly includes waste disposal fee. Given their business nature, historical operating data and the latest market conditions, the Management expected the volume would remain stable in the foreseeable future and the price shall increase by 2% in year 2020 and keep stable afterwards, based on the historical financial data and the expected demand in China.

According to industry report as extracted from IFinD database, the average VAT-inclusive sales price in the industry is 2,600 RMB/Ton. The forecasted VAT-inclusive sales price since the year 2020 and on is 2,522.98 RMB/Ton, which is lower than the average price. On this basis, we understood that the sales price in the Projection was reasonably forecasted.

Lvrn currently holds the license that allows Lvrn to treat in total 50,000 tons of hazardous wastes, and is in the application process of another 100,000 tons of hazardous waste. The environmental inspection approval was issued for the expansion of 100,000 tons of hazardous waste, but the land-use-right for the new plant was not yet acquired. Due to the fact that the cost structure and pricing strategy will be different in terms of the post-expansion plan, and so are the supply and demand in the market in the long-term view, the Management prepared the Project without consideration of expansion plan, as the revenue stream of phase II cannot be reliably estimated as at the report date. We are of the view that it is reasonable to exclude the expansion plan in forecasting the profit or loss of Lvrn Group.

Staff costs: the Management expected that in realization of the current capacity, the headcount plan is approximately 149, and annual salary shall increase by 5% each year during the Projection Period. With reference to the national statistics<sup>3</sup> and in accordance with our historical experiences as well as consideration of long-term efficiency improvement, the annual increase of 5% for total staff costs is reasonably conservative.

Operating Expenses: Except staff costs, the operating expenses mainly include cost of materials, utility, transportation costs of collecting hazardous waste and disposing by-products, as well as the commission expenses to the agents. The cost of materials and utility costs are highly correlated with the treatment volume and are forecasted with the forecasted volume and unit cost of materials and utilities. The unit cost of materials is forecasted to increase by 3% annually during the Projection Period, with reference to the annual inflation as extracted from IFinD database. The transportation costs and commission expenses are highly correlated with the collection and treatment volume, and are forecasted with the forecasted volume and unit cost of transportation and commission respectively.

Depreciation and Amortisation Expenses: Depreciation and amortisation expenses were estimated based on the existing fixed assets and planned Capital Expenditure (the “CAPEX”). The annual depreciation rate on fixed assets was according to the accounting policy of Lvrn.

Interest Expenses: Lvrn had no plan to raise debt financing and there was no interest expense to be incurred.

Income Taxes: The enterprise income tax rate is 25% in PRC but Lvrn enjoyed the tax preferential policy of 3 year exemption and 3 year half deduction since year 2017. Therefore the applicable enterprise income tax rate throughout the Projection Period is as follows:

Year	Tax rate
2017	0%
2018	0%
2019	0%
2020	12.5%
2021	12.5%
2022	12.5%
2023	25%
2024	25%

<sup>3</sup> Reference of URL: [http://www.stats.gov.cn/tjsj/sjjd/201912/t20191216\\_1717823.html](http://www.stats.gov.cn/tjsj/sjjd/201912/t20191216_1717823.html)

***Working Capital***

Based on the assumptions of sales and purchase activities, the Management estimated the Days Sale Outstanding (the “DSO”) and Days Procurement Outstanding (the “DPO”) per the historical payment conditions. DSO = 90 days and DPO = 90 days.

***Capital Expenditure***

The Lvr run Group was expected to spend no more than RMB10,000,000 and RMB4,000,000 respectively to refurbish the equipment and pay for the remaining costs of land-use-right. Given that the capacity remained constant and the major renovation would take place in the year 2019 and get paid in the year 2020, there were no other material spending on new plant improvements, furniture and fixtures that were expected to be incurred in other years and only replacement CAPEX was assumed during the Projection Period.

***Cash Flow Adjustments***

In order to arrive at free cash flow to equity in our valuation model, net income was adjusted for certain items in order to estimate the cash return on the assets that generate the forecast revenue. First, noncash items, including depreciation, and after-tax interest expenses, if any, were added back to net income. Second, forecasted capital expenditures, if any, and investment in operating working capital were subtracted. Working capital requirements were forecast across the entire Projection Period by analysing growth in operating expenses.

***Discount Rate Estimation***

The discount rate applied to the forecasted cash flows and terminal value must adequately reflect the nature of the subject investment and the risk of the underlying cash flows. For purposes of our analysis, the appropriate discount rate is a cost of equity since the Lvr run Group did not have the net debt. The cost of equity is developed through the application of the Capital Asset Pricing Model (“CAPM”) with reference to the required rates of return demanded by investors for similar projects. A major requirement in generating the cost of equity is to identify companies that are comparable to the Lvr run Group in terms of business nature and associated risks.

***Selection of Comparable Companies***

In the valuation model, we have based on the following criteria to select the comparable companies we think fit for this valuation: (1) provision of waste treatment services, (2) income from the major operations as mentioned in previous point shall be a majority part of the respective overall revenue; (3) has operating profits; (4) liability-asset ratio shall be less than 100% and (5) listed in a recognisable exchange in People’s Republic of China or Hong Kong for over five years.

To conclude, there are 5 entities which are listed either in People's Republic of China or Hong Kong selected as comparable companies of the Lvrin Group. A description of the business operation of the comparable companies is summarized below:

<b>Selected Comparable Companies</b>	<b>Business scope</b>	<b>Market Capitalization as at the valuation date</b>	<b>Cost of Equity</b>
Dongjiang Environmental Company Limited Stock code: 002672. SZ	Disposal and comprehensive utilization of waste (licensed separately); treatment of waste water, waste gas and noise; design, construction and operation of environmental protection facilities; sales of chemical products (operated after obtaining dangerous goods for dangerous goods); environmentally friendly materials, environmental protection production, purchase and sale of recycled products and environmental protection equipment (sales license for production sites), development, promotion and application of new environmentally-friendly products and technologies; establishment of industry (construction of specific projects); import and export of goods and technology (excluding distribution), the state specializes in special control of goods); property leasing; biogas and other biomass power generation.	9.3 Billion RMB	11.23%
Beijing Geoviron Engineering & Technology, Inc. 603588.SH	Provide environmental management system solutions for government and enterprise users through engineering contracting, investment operations and technical services. The main business income comes from EPC, PPP, BOT project construction revenue and operating service income.	7.4 Billion RMB	12.91%

<b>Selected Comparable Companies</b>	<b>Business scope</b>	<b>Market Capitalization as at the valuation date</b>	<b>Cost of Equity</b>
Jinyuan Ep Co., Ltd 000546.SZ	Construction and operation of industrial solid waste and hazardous waste collection, storage, disposal and comprehensive utilization projects; production and sales of cement and auxiliary materials and cement products; construction materials production and technical services; investment in urban infrastructure, investment in environmental protection, cement, business, building materials, road transport related business.	6.9 Billion RMB	13.38%
New Universe Environmental Group Limited 00436.HK	Operates through three major business units: providing environmentally friendly waste treatment services, providing environmentally friendly wastewater treatment services in ecological plating areas, and investing in plastic coloration. Its subsidiaries include Smartech International Group Limited, New Universe International Holdings Limited, Smartech Manufacturing Limited, Smartech Plastic Moulding Limited, Smartech Services Limited, New Universe (China) Limited and New Universe Environmental Protection Investment Limited.	0.91 Billion HK dollars	8.1%

Selected Comparable Companies	Business scope	Market Capitalization as at the valuation date	Cost of Equity
CT Environmental Group Limited 01363.HK	Zhongtao Environmental Group Co., Ltd. is an investment holding company mainly engaged in environmental protection business. It includes seven business units. The Industrial Water Supply Division is engaged in the industrial water supply business. The Sewage Treatment Plant Operating Services Department operates the wastewater treatment plant under a Build-Own-Operate (BOO) agreement. Construction-Operation-Transfer (BOT) Project Construction and operation service departments operate wastewater and solid waste treatment plants in accordance with the BOT agreement. The heating service department provides heating services. The sludge and solid waste treatment service department provides sludge and solid waste treatment services. Entrust the operation service department to operate the related business. The hazardous waste treatment service department provides hazardous waste treatment services.	2.15 Billion HK dollars	5.4%

The list of comparable companies is exhaustive and can produce a fair and representative basis for the assessments as comparable to be adopted in the derivation of discount rate.



*CAPM*

The CAPM states that an investor requires excess returns to compensate for any risk that is correlated to the risk in the return from the stock market as a whole but requires no excess return for other risks. Risks that are correlated to the risk in the return from the stock market as a whole are referred to as systematic and measured by a parameter called beta, whereas other risks are referred to as non-systematic. The cost of equity for the Lvr run Group is the sum of the risk-free rate return, the equity risk premium required by investors to compensate for the systematic risk assumed with adjustments for increment for risk differentials of versus those of the comparable companies, which include risk adjustments for size and other risk factors in relation to the comparable companies.

The formula of CAPM is defined as follows:

$$R_e = R_f + \beta(R_m) + R_c$$

where:  $R_e$  = Return on equity

$R_f$  = Risk-free rate

$\beta$  = Beta

$R_m$  = Market risk premium

$R_c$  = Premium for size and other risk factors

The risk-free rate is 3.85%, based upon the yields on 30 years' government bonds in People's Republic of China as of the Valuation Date. The market risk premium is 7.71% as sourced from the IFinD database and represents the average total return of common stocks in excess of the income return of long-term securities in China. In order to estimate the appropriate beta for use in our analysis, we researched companies in a similar business as the Lvr run Group. Our sample included 5 listed companies. The equity beta for each company in our sample was researched with the reference base of average total return of common stocks. Based on their levered betas that were extracted from IFinD as at the Valuation Date, we first computed the unlevered betas from the market data by adjusting their respective liability-to-equity ratio. We then applied the liability-to-equity ratios and the statutory tax rates of the Lvr run Group to derive the re-levered betas. The premium for size and other risk factors is 1% and was applied in the calculation of the cost of equity after the comprehensive consideration of the additional risk associated with the operation of the Lvr run Group.

The unlevered betas of the comparables are as follows:

Comparable Companies	Unlevered betas
Dongjiang Environmental Company Limited Stock code: 002672.SZ	0.66
Beijing Geoenvirom Engineering & Technology, Inc. 603588.SH	0.70
Jinyuan Ep Co., Ltd 000546.SZ	0.83
New Universe Environmental Group Limited 00436.HK	0.35
CT Environmental Group Limited 01363.HK	0.38

The re-levered beta adopted is 0.73.

According to our analysis, the cost of equity of the Lvr run Group as at the Valuation Date was 10.45% respectively.

#### ***Terminal Value Calculation***

The terminal value was based on a terminal value cash flow multiple. Such multiple was supposed to be calculated by subtracting a terminal growth rate from a cost of equity and taking the inverse, which equals the capitalization rate of the Lvr run Group. No terminal growth rate was determined based upon the fact that Lvr run had a capacity limit of 50,000 tons of hazardous waste treatment.

### **3.7 Key Assumptions**

This valuation is subject to the following major assumptions:

- 1) There will be no major changes in the existing political, legal, fiscal and economic conditions in which the Lvr run Group carries on their businesses;
- 2) There will be no major changes in the current taxation law in the country where the Lvr run Group operates, that the rates of tax payable will remain unchanged and that all applicable laws and regulations will be complied with;
- 3) There will be no material changes in the industry in which the Lvr run Group involve that would materially affect the revenues, profits, cash flows attributable to the Lvr run Group, e.g. the sales price will be stable in the forecast period;
- 4) The Lvr run Group as well as their partners will obtain the necessary licenses and approvals to provide their service;
- 5) Market situation, such as exchange rates and interest rates will not differ materially from those presently prevailing;
- 6) The availability of finance will not be a constraint on the forecasted growth of operations of the Lvr run Group;
- 7) The Lvr run Group will successfully maintain their competitiveness and market share through optimising the utilization of their resources and expanding their marketing networks;
- 8) The Lvr run Group can keep in line with the latest development of the industry so that their competitiveness and profitability can be sustained;
- 9) The Lvr run Group will utilize and maintain their current operational, administrative and technical facilities to maintain their sales;
- 10) The Lvr run Group will be able to secure funds to repay their debts when they fall due;

- 11) The Lvr run Group will retain and have competent management, key personnel, technical staff and stable work locations to support their ongoing operations;
- 12) Industry trends and market conditions for related industries will not deviate materially from economic forecasts;
- 13) The Projection has been prepared on a reasonable basis, reflecting estimates which have been arrived at after due and careful consideration;
- 14) No perpetual growth rate is adopted, due to the limits of capacity at 50,000 tons of hazardous waste treatment without considering further expansions;
- 15) No event of force majeure, e.g. accidents, shall take place among the forecast period;

Detailed calculation is shown as below:

$$FCF = NOPAT + NCE - NCI - InvFA - InvNWC$$

Where:

FCF = free cash flow

NOPAT = net operating profit after tax

NCE = non-cash expenses

NCI = non-cash incomes

Inv FA = investment in capital expenditure

Inv NWC = investment in net working capital

The results were then discounted using a discount rate, or the cost of capital, to determine the present value of the expected cash flows.

The present value of the expected cash flows was computed using the following formula:

$$PVFCF = FCF_1/(1+r)^1 + FCF_2/(1+r)^2 + \dots + FCF_n/(1+r)^n$$

Where:

PVFCF = present value of free cash flows

FCF = free cash flow

r = discount rate

n = number of year of projections

#### Items

*Thousand RMB*

Summary of present value

Total Present Value of Lvr run Group	300,104
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Add: Cash	3,989
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Less: Debt	—
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<b>100% Equity Interest of Lvr run Group</b>	<b>304,093</b>
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**4. INDICATION OF VALUE**

Based upon the investigation and analysis outlined above and on the valuation method employed, it is our conclusion that the fair value of the 100% equity interest in the business enterprise of the Lvr run Group as at 30 June 2019 is reasonably stated by the amount of **RENMINBI THREE HUNDRED AND FOUR MILLION ONLY (RMB304,000,000)**.

This indication of value was based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. Any variation to the assumptions and limiting conditions presented in the report could seriously affect our indication of value.

Although our valuation is intended to estimate fair value, we assume no responsibility for the inability of a seller or buyer to obtain a sale or purchase contract at that price.

We have no obligation to update this report or our indication of value for information that comes to our attention after the date of the valuation.

We hereby certify that we have neither present nor prospective interests in the Company, the Lvr run Group, the Vendor, or the values reported.

Shanghai, 31 December 2019

**Shanghai Rödl & Partner**

*Certified Public Accountants Partnership*

**Gene Zhao**

Partner

*Mr. Gene Zhao is a member of the Chinese Institute of Certified Public Accountants and is the Fellow of Chartered Certified Accountant in UK as well as CFA Charter Holder in USA. He has gained over 20 years of experience in accounting, auditing, business valuation, etc. He has worked in the valuation field for over 10 years and participated in various kinds of valuation assignment, such as business valuation, intangible assets valuation and purchase price allocation for companies in different industries.*

*The following is the text of a letter from KPMG, Certified Public Accountants, which has been prepared for the purpose of inclusion in this circular.*



**REPORT ON THE DISCOUNTED FUTURE CASH FLOWS IN CONNECTION WITH  
THE BUSINESS VALUATION OF THE LVRUN GROUP (AS DEFINED BELOW)**

**TO THE BOARD OF DIRECTORS OF  
INTEGRATED WASTE SOLUTIONS GROUP HOLDINGS LIMITED**

We refer to the discounted future cash flows on which the business valuation (the “Valuation”) dated 31 December 2019 prepared by Shanghai Rödl & Partner, Certified Public Accountants Partnership in respect of the appraisal of the fair value of Lianyungang Lvrün Environmental Protection Technology Co., Ltd. and its subsidiary (the “Lvrün Group”) as at 30 June 2019 is based. The Valuation is prepared based on the discounted future cash flows and is regarded 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”).

**Directors’ Responsibilities**

The directors of Integrated Waste Solutions Group Holdings Limited (the “Directors”) are responsible for the preparation of the discounted future cash flows in accordance with the bases and assumptions determined by the Directors and as set out in the Valuation. This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future cash flows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

**Our Independence and Quality Control**

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

**Reporting Accountants’ Responsibilities**

Our responsibility is to report, as required by paragraph 14.62(2) of the Listing Rules, on the calculations of the discounted future cash flows used in the Valuation. The discounted future cash flows do not involve the adoption of accounting policies.

**Basis of Opinion**

We conducted our engagement in accordance with the Hong Kong Standard on Assurance Engagements 3000 (Revised) “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” issued by the HKICPA. This standard requires that we plan and perform our work to obtain reasonable assurance as to whether, so far as the calculations are concerned, the Directors have properly compiled the discounted future cash flows in accordance with the bases and assumptions adopted by the Directors as set out in the Valuation. We performed procedures on the arithmetical calculations and the compilations of the discounted future cash flows in accordance with the bases and assumptions adopted by the Directors. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

**Opinion**

In our opinion, so far as the calculations are concerned, the discounted future cash flows have been properly compiled in all material respects in accordance with the bases and assumptions adopted by the Directors as set out in the Valuation.

**Other matters**

Without qualifying our opinion, we draw to your attention that we are not reporting on the appropriateness and validity of the bases and assumptions on which the discounted future cash flows are based and our work does not constitute any valuation of the Lvrn Group or an expression of an audit or review opinion on the Valuation.

The discounted future cash flows depend on future events and on a number of assumptions which cannot be confirmed and verified in the same way as past results and not all of which may remain valid throughout the period. Further, since the discounted future cash flows relates to the future, actual results are likely to be different from the discounted future cash flows because events and circumstances frequently do not occur as expected, and the differences may be material. Our work has been undertaken for the purpose of reporting solely to you under paragraph 14.62(2) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of, arising out of or in connection with our work.

**KPMG**

*Certified Public Accountants*

8th Floor, Prince’s Building  
10 Chater Road  
Central, Hong Kong  
31 December 2019

*The following is the text of a letter from Halcyon Capital Limited, which has been prepared for the purpose of inclusion in this circular.*



**Halcyon Capital Limited**

11/F, 8 Wyndham Street,  
Central, Hong Kong

31 December 2019

**The Board of Directors**

**Integrated Waste Solutions Group Holdings Limited**

Integrated Waste Solutions Building

8 Chun Cheong Street

Tseung Kwan O Industrial Estate

New Territories, Hong Kong

Dear Sirs,

We refer to the valuation report (the “**Report**”) prepared by Shanghai Rödl & Partner, Certified Public Accountant Partnership (the “**Valuer**”) in relation to the valuation (the “**Valuation**”) of the fair value of 100% equity interest of Lianyungang Lvrn Environmental Protection Technology Co., Ltd.\* (連雲港綠潤環保科技有限公司) (“**Lvrn**”, together with its subsidiary, “**Lvrn Group**”) as at 30 June 2019. The principal assumptions upon which the Valuation is based are included in the circular of Integrated Waste Solution Group Holding Limited (the “**Company**”) dated 31 December 2019 (the “**Circular**”), of which this letter forms part. Capitalised terms used herein shall have the same meanings as those defined in the Circular unless the context requires otherwise. The Report is contained in Appendix IV to the Circular.

As stated in the Report, the Valuation has been arrived at and based on the income approach, which has taken into account the discounted cash flow projection of Lvrn Group (the “**Projection**”). As such, the Projection is regarded as a profit forecast (the “**Profit Forecast**”) under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

We have reviewed the Profit Forecast upon which the Valuation has been made, for which you as the Directors are solely responsible, and have discussed with the management of the Company and the Valuer regarding the bases and assumptions upon which the Profit Forecast has been prepared. We have also considered the letter from KPMG, Certified Public Accountants, dated 31 December 2019 as set out in Appendix IV of the Circular addressed to you regarding the calculations upon which the Profit Forecast has been made. We noted that in the opinion of KPMG, so far as the calculations are concerned, that the Profit Forecast has been properly compiled, in all material respects, in accordance with the bases and assumptions adopted by the Directors as set out in the Valuation.

As the relevant bases and assumptions are about future events which may or may not occur, the actual business and financial performance of the business of Lvrn Group may or may not achieve as expected and the variation may be material. For the purpose of this letter, we have relied on and assumed the accuracy and completeness of all information provided to us and/or discussed with the Company. We have not assumed any responsibility for independently verifying the accuracy and completeness of such information or undertaken any independent evaluation or appraisal of any of the assets or liabilities of Lvrn Group. Save as expressly stated in this letter, we take no responsibility for and express no views, whether expressly or implicitly, on the fair value or market value of Lvrn Group as determined by the Valuer and set out in the Report issued by the Valuer or otherwise.

On the basis of the foregoing and without giving any opinion on the reasonableness of the valuation method and the bases and assumptions adopted by the Valuer on the Valuation, for which you and the Valuer are responsible, we are of the opinion that the Profit Forecast upon which the Valuation has been made, for which you as the Directors are solely responsible, has been made after due and careful enquiry by you.

Our opinion has been given for the sole purpose of compliance with Rule 14.61 of the Listing Rules and for no other purpose.

Yours faithfully,  
For and on behalf of  
**Halcyon Capital Limited**  
**Terry Chu**  
*Managing Director*



*The following is the text of a letter and a valuation certificate, prepared for the purpose of incorporation in this circular received from Citiland Surveyors Limited, an independent valuer, in connection with its valuation as at 30 September 2019 of the property interests of the Lvrn Group.*

**Citiland Surveyors Limited**

Valuation and Surveying Department  
Unit 1801, 18/F, Emperor Group Centre  
No.288 Hennessy Road  
Wan Chai, Hong Kong

T: +852 2111-8882    W: [www.citilandsurveyors.com](http://www.citilandsurveyors.com)



31 December 2019

The Board of Directors  
Integrated Waste Solutions Group Holdings Limited  
Integrated Waste Solutions Building  
8 Chung Cheong Street  
Tseung Kwan O Industrial Estate  
Tseung Kwan O  
New Territories  
Hong Kong

Dear Sirs,

In accordance with the instruction of Integrated Waste Solutions Group Holdings Limited (hereinafter referred to as the “Company”) to value the property interests (hereinafter referred to as the “Property”) held by Leyuan New Material Technology Co., Ltd. (“Leyuan New Material”) and Lianyungang Lvrn Environmental Protection Technology Co., Ltd. (“Lvrn”) (hereinafter together referred to as the “Lvrn Group”) in the People’s Republic of China (the “PRC”), we confirm that we have carried out inspection, made relevant enquiries and searches and obtained such further information as we consider necessary for the purposes of providing you with our opinion of the value of the property interests as at 30 September 2019 (the “date of valuation”).

Our valuation of the property interests represents the market value which we would define as intended to mean “the estimated amount for which an asset or liability should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction, after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion”.

Where, due to the nature of the buildings and structures of the properties in the PRC, there are no market sales comparables readily available, the property interests have been valued on the basis of their depreciated replacement cost (“DRC”).

DRC is “the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimization”. In our valuation, no consideration has been taken into account of alternative uses(s) or development option(s); nor have we considered any redevelopment potential of the property.

Our valuation has been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the value of the property interests.

No allowance has been made in our report for any charges, mortgages or amounts owing on any of the property interests valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the Property is free from encumbrances, restrictions and outgoings of an onerous nature, which could affect its value.

In valuing the property interests, we have complied with all the requirements contained in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; “RICS Valuation – Global Standards 2017” published by the Royal Institution of Chartered Surveyors; and “HKIS Valuation Standards 2017” published by the Hong Kong Institute of Surveyors.

We have relied to a very considerable extent on the information given by the Company and the Lvrn Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been, in some instances, provided by the Company and the Lvrn Group with extracts of the title documents relating to the property interests in the PRC. Where possible, we have searched the original documents to verify the existing titles to the property interests in the PRC and any material encumbrances that might be attached to the property interests or any lease amendments which may not appear on the copies handed to us. We have relied considerably on the advice given by the Company’s PRC legal adviser – Jiangsu Cang You Law Firm, concerning the validity of the Lvrn Group’s titles to the property interests.

We have not carried out detailed site measurements to verify the correctness of the site areas in respect of the Property but have assumed that the site areas shown on the documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the Property. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the Property is free of rot, infestation or any other structural defects. No test is carried out on any of the services.

Inspection of the Property was carried out on 24 September 2019 by Mr. Desmond Wong and Mr. Jantzen Pang and Mr. Wong is a Chartered Surveyor/Registered Professional Surveyor and has more than 20 years of experience in the valuation of properties in the PRC.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company and the Lvrn Group. We have also sought confirmation from the Lvrn Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary sums stated in this report are in Renminbi (RMB).

Our valuation is summarized below and the valuation certificate is attached.

Yours faithfully,  
for and on behalf of  
**Citiland Surveyors Limited**  
**Kenneth Cheung**  
*B. Sc. MRICS MHKIS*  
*Executive Director*

*Note:* Kenneth Cheung is a member of the Royal Institution of Chartered Surveyors (MRICS), a member of the Hong Kong Institute of Surveyors (MHKIS), a Registered Professional Surveyor (General Practice) under the Surveyors Registration Ordinance of Hong Kong and a Registered Real Estate Appraiser in People's Republic of China. Also, he is a holder of a BSc(Hons) Degree in Land Management of University of Reading in England. He has over 27 years' experience in valuation of buildings and lands, and intangible assets in the PRC, Hong Kong, Macau and overseas.

## VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 September 2019 <i>RMB</i>
2 parcels of land, various buildings and structures located at No.8 Huang He Lu Donghai Economic Development Zone Donghai County Lianyungang City Jiangsu The PRC	<p>The Property comprises 2 parcels of land with a total site area of approximately 113,154 sq.m. (1,217,990 sq.ft.), and various buildings and ancillary structures erected thereon.</p> <p>The major buildings comprise 2 single storey factories, a 5-storey office building, a basketball stadium, a 3-storey dormitory and a single storey warehouse completed between 2013 and 2018.</p> <p>The Property has a total gross floor area of approximately 40,842.01 sq.m. (439,623 sq.ft.).</p> <p>The land use rights of the Property are granted for a term of 50 years commencing from 15 August 2013 and expiring on 14 August 2063 for industrial uses.</p>	The Property is currently occupied by the Lvrn Group for production, warehouse and ancillary office purposes.	91,300,000

*Notes:*

1. Pursuant to a Realty Title Certificate – Su 2019 Dong Hai Xian Bu Dong Chan Quan Di No. 0015091 (蘇2019東海縣不動產權第0015091號) dated 19 August 2019 issued by the Donghaixian Natural Resource and Planning Bureau, the land use rights of the parcel of land with the site area of 64,211 sq.m. and 4 buildings (a single storey factory, a 5-storey office building, a basketball stadium and a 3-storey dormitory) with a total gross floor area of approximately 23,380.11 sq.m. are held by Leyuan New Material Technology Co., Ltd. (連雲港樂園新材料科技有限公司).
2. Pursuant to a Building Ownership Certificate – Lian Fang Quan Zheng Niu Zi Di No. N00063590 (連房權証牛字第N00063590號) dated 3 December 2013 issued by the Donghaixian Building Administration Bureau, a single storey factory building with a total gross floor area of approximately 15,850 sq.m. (170,609 sq.ft.) is held by Leyuan New Material Technology Co., Ltd. (連雲港樂園新材料科技有限公司).
3. In the valuation of the Property, we have not attributed any commercial value to a single storey warehouse with a gross floor area of approximately 1,611.9 sq.m. (17,350 sq.ft.) and a parcel of land with site area of 48,943 sq.m. (526,822 sq.ft.) which have not been granted with any building ownership certificate nor land use rights certificate.
4. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal adviser, which contains, inter alia, the following information:
  - (i) The Property (save and except the warehouse and parcel of land mentioned in note 3 above) is legally vested in Leyuan New Material Technology Co., Ltd. (連雲港樂園新材料科技有限公司).
  - (ii) Leyuan New Material Technology Co., Ltd. (連雲港樂園新材料科技有限公司) has the right to lease, transfer, mortgage and deal with the land use rights and building ownership right of the Property (save and except the parcel of land and the warehouse mentioned in note 3 above).
  - (iii) Regarding the warehouse mentioned in note 3 above, Leyuan New Material Technology Co., Ltd. (連雲港樂園新材料科技有限公司) has not obtained any title certificate but has owned related interests of the property, and are arranging application to obtain the title certificate.

## 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 Company. 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. DISCLOSURE OF INTERESTS

### (i) Interests of Directors

As at the Latest Practicable Date, the interests of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which (i) 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 (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

#### *Long positions in the Shares and underlying Shares*

Name of Director	Capacity	Number of Shares (Note)	Approximate percentage of shareholding
Lam King Sang	Beneficial owner	15,000,000	0.31%
Tam Sui Kin, Chris	Beneficial owner	15,000,000	0.31%
Cheng Chi Ming, Brian	Beneficial owner	15,000,000	0.31%

Name of Director	Capacity	Number of Shares (Note)	Approximate percentage of shareholding
Tsang On Yip, Patrick	Beneficial owner	15,000,000	0.31%
Lau Sai Cheong	Beneficial owner	8,800,000	0.18%
Chow Shiu Wing, Joseph	Beneficial owner	8,800,000	0.18%
Wong Man Chung, Francis	Beneficial owner	8,800,000	0.18%

*Note:*

These are underlying Shares which may be allotted and issued to the respective Directors upon exercise of options granted to them on 7 September 2016 pursuant to the Company's share option scheme adopted by the Shareholders on 11 March 2010 (the "**Share Option Scheme**"). Such options are exercisable during the period from 7 September 2017 to 6 September 2022 at an exercise price of HK\$0.128 per Share.

***Long positions in the shares and underlying shares of associated corporation***

Name of associated corporation	Name of Director	Capacity	Number of shares	Approximate percentage of shareholding
Greenheart Group Limited (" <b>Greenheart</b> ") (Note 1)	Tsang On Yip, Patrick	Beneficial owner	(1) 2,200,000	(1) 0.12%
			(Note 2)	
			(2) 3,300,000	(2) 0.18%
			(Note 3)	
Greenheart	Wong Man Chung, Francis	Beneficial owner	(1) 1,100,000	(1) 0.06%
			(Note 2)	
			(2) 1,100,000	(2) 0.06%
			(Note 3)	

*Notes:*

- 1 Greenheart is a fellow subsidiary of the Company.
- 2 These are underlying shares in Greenheart which may be allotted and issued to the respective Directors upon exercise of options granted to them on 17 July 2015 pursuant to Greenheart's share option scheme. Such options are exercisable during the period from 17 July 2015 to 16 July 2020 at an exercise price of HK\$1.12 per share.
- 3 These are underlying shares in Greenheart which may be allotted and issued to the respective Directors upon exercise of options granted to them on 13 September 2016 pursuant to Greenheart's share option scheme. Such options are exercisable during the period from 13 September 2016 to 12 September 2021 at an exercise price of HK\$0.71 per share.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interest and short positions in the shares, underlying shares and debentures of the Company or any 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 the interests and short positions in which they were deemed or taken to have under such provisions of the SFO), or which are 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, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.



## (ii) Interests of substantial Shareholders

As at the Latest Practicable Date, so far as was known to the Directors, the following persons, other than the Directors or chief executives of the Company, had interests or short positions in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Name of Shareholder	Capacity	Number of Shares held	Approximate percentage of shareholding
Cheng Yu Tung Family (Holdings) Limited ( <i>Note 1</i> )	Interest in controlled corporations	2,742,514,028	56.86%
Cheng Yu Tung Family (Holdings II) Limited ( <i>Note 1</i> )	Interest in controlled corporations	2,742,514,028	56.86%
Chow Tai Fook Capital Limited ( <i>Note 1</i> )	Interest in controlled corporations	2,742,514,028	56.86%
Chow Tai Fook (Holding) Limited ( <i>Note 2</i> )	Interest in controlled corporations	2,742,514,028	56.86%
Chow Tai Fook Nominee Limited ( <i>Note 3</i> )	(1) Beneficial owner	(1) 1,530,601,835	(1) 31.74%
	(2) Interest in controlled corporations	(2) 732,550,000	(2) 15.19%
Victory Day Investments Limited ( <i>Note 3</i> )	Interest in controlled corporation	732,550,000	15.19%
Smart On Resources Ltd. ( <i>Note 3</i> )	Beneficial owner	732,550,000	15.19%
Prestige Safe Limited ( <i>Note 2</i> )	Beneficial owner	479,362,193	9.94%
City Legend International Limited ( <i>Note 4</i> )	Beneficial owner	785,100,000	16.28%
Mr. Leung Kai Kuen ( <i>Note 4</i> )	Interest in a controlled corporation	785,100,000	16.28%

*Notes:*

- 1 As at the Latest Practicable Date, Cheng Yu Tung Family (Holdings) Limited and Cheng Yu Tung Family (Holdings II) Limited held approximately 48.98% and 46.65% interest in Chow Tai Fook Capital Limited respectively, which in turn held an approximately 81.03% interest in Chow Tai Fook (Holding) Limited. As such, each of Cheng Yu Tung Family (Holdings) Limited, Cheng Yu Tung Family (Holdings II) Limited and Chow Tai Fook Capital Limited is deemed to be interested in the 2,742,514,028 Shares.
- 2 Chow Tai Fook (Holding) Limited is the controlling shareholder of Chow Tai Fook Nominee Limited and the 100% holding company of Prestige Safe Limited, and accordingly Chow Tai Fook (Holding) Limited is deemed to be interested in an aggregate of 2,742,514,028 Shares.
- 3 Chow Tai Fook Nominee Limited is the beneficial owner of 1,530,601,835 Shares and is interested in 732,550,000 Shares through its interest in a wholly-owned subsidiary, Victory Day Investments Limited, which in turn wholly-owns Smart On Resources Ltd.
- 4 The disclosure of the interest of City Legend International Limited, and the deemed interest of Mr. Leung Kai Kuen, in the Shares is based on historical records of the Company. The Company has not received any further notification with respect to any change in the interest of City Legend International Limited, and the deemed interest of Mr. Leung Kai Kuen, in the Shares.

Save as disclosed above, so far as is known to the Directors, as at the Latest Practicable Date, there was no other person who had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

### 3. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) had been entered into by the members of the Group within two years preceding the Latest Practicable Date and are, or may be, material:

- (a) the co-operation agreement (the “**Co-operation Agreement**”) dated 25 October 2018 entered into between IWS Waste Management (International) Limited (“**IWS International**”), which is an indirect wholly-owned subsidiary of the Company, and FTM Polymer Limited (“**FTM**”) in relation to the formation of a company, RGF Environmental New Material Limited (“**RGF**”), established in Hong Kong with limited liability, owned as to 49% by IWS International and 51% by FTM and principally engaged in the development of the business in engineering recycled plastic pellets, among others, Engineering Recycled Polycarbonate and Acrylonitrile Butadiene Styrene pellets. Under the Co-operation Agreement, IWS International is required (i) to contribute HK\$14.7 million in cash to the capital of RGF and (ii) to provide RGF with a shareholder’s loan facility of HK\$30 million, including a HK\$15 million term loan and a HK\$15 million standby commitment for a term of 3 years respectively from the date of drawdown. Further particulars of the Co-operation Agreement are set out in the announcement of the Company dated 25 October 2018; and
- (b) the SP Agreement.

#### 4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

#### 5. QUALIFICATIONS AND CONSENTS OF EXPERTS

The following are the qualifications of the experts who have been named in this circular or have given opinions, letters or advice contained in this circular:

<b>Name</b>	<b>Qualifications</b>
KPMG	Certified Public Accountants
Shanghai Rödl & Partner, Certified Public Accountant Partnership	Independent professional valuer
Citiland Surveyors Limited	Property valuer
Halcyon Capital Limited	A licensed corporation under the SFO to conduct Type 6 (advising on corporate finance) regulated activity

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with inclusion herein of its letter or report and/or reference to its name, in the form and context in which they appear.

As at the Latest Practicable Date, each of the above experts did not have any interest in the share capital of any member of the Group or any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, each of the above experts did not have any interest, direct or indirect, in any assets which have been, since 31 March 2019, being the date to which the latest published audited consolidated financial statements of the Group were made up, acquired or disposed of by or leased to or were proposed to be acquired or disposed of or leased to any member of the Group.

## 6. LITIGATION

Save as disclosed below, so far as is known to the Directors, no member of the Group was engaged in any litigation or claims of material importance and no litigation or claims of material importance was pending or threatened against any member of the Group as at the Latest Practicable Date:

### (a) High Court Action 1764 of 2013

On 17 September 2013, the Company commenced legal proceedings against: (i) Leung Kai Kuen (梁契權), (ii) Leung Tat Piu (梁達標), (iii) Cheng Chun Keung, Thomas (鄭振強), (iv) Ing Alan (吳初浩), (v) Mak Sau Ling and (vi) Wong Sze Chung Armstrong (together, the “**HCA1764/2013 Defendants**”) in the Court of First Instance of the High Court of Hong Kong, claiming the sum of HK\$30,712,531, alleging that the HCA1764/2013 Defendants were negligent and failed to perform their respective duties to inform, advise, remind and protect the Company to set up an affective financial monitoring system, causing loss and damages to the Company in the course of transferring monies to 惠州福和紙業有限公司 (“**Huizhou Fook Woo**”), an indirect wholly-owned subsidiary of the Company at the material time, through two new agents which did not have any business connections with the Company or Huizhou Fook Woo. The Company has filed an amended-statement of claim on 7 July 2014. As at the Latest Practicable Date, (i) an interlocutory judgment had been entered against Leung Kai Kuen (梁契權) and under a separate claim made by the Company a bankruptcy order had been issued against him; (ii) the claim against each of Leung Tat Piu (梁達標) and Wong Sze Chung Armstrong, respectively, had been settled and the action against each of them had been discontinued; and (iii) the action against each of Cheng Chun Keung, Thomas (鄭振強), Ing Alan (吳初浩), and Mak Sau Ling, respectively, was still pending.

### (b) High Court Action 2377 of 2013

On 6 December 2013, the Company commenced legal proceedings against: (i) Leung Kai Kuen (梁契權), (ii) Liang Huizhen (梁惠珍), (iii) Wong Sze Chung Armstrong, (iv) Tam Wai Ming (譚偉明) (together, the “**1st to 4th HCA2377/2013 Defendants**”) and (v) Roma Appraisals Limited (羅馬國際評估有限公司) (the “**5th HCA2377/2013 Defendant**”) in the Court of First Instance of the High Court of Hong Kong, claiming the sum of (i) HK\$18,625,222 (against the 1st to 4th HCA2377/2013 Defendants); and (ii) HK\$40,000 (against the 5th HCA2377/2013 Defendant). As stated in the writ issued by the Company, it was alleged that the 1st to 4th HCA2377/2013 Defendants were in breach of their respective duties and conspired to commit fraudulent acts leading to the suspension of trading of Shares causing loss and damages to the Company. As at the Latest Practicable Date, (i) an interlocutory judgment had been entered against Leung Kai Kuen (梁契權) and under a separate claim made by the Company a bankruptcy order had been issued against him; (ii) the action against Liang Huizhen (梁惠珍) was still pending; and (iii) the claim against each of Wong Sze Chung Armstrong, Tam Wai Ming (譚偉明) and the 5th HCA2377/2013 Defendant, respectively, had been settled and the action against each of them had been discontinued.

**(c) High Court Action 1465 of 2014**

On 31 July 2014, the Company commenced legal proceedings against: (i) Leung Kai Kuen (梁契權), (ii) Cheng Chun Keung, Thomas (鄭振強), (iii) Shiu Wai Chung (蕭偉忠), (iv) Suntex Paper Machinery Import & Export Company Limited (順昌紙制品設備進出口有限公司) and (v) Leung Tat Piu (梁達標) (together, the “**HCA1465/2014 Defendants**”) in the Court of First Instance of the High Court of Hong Kong, claiming the sum of HK\$104,704,232. As stated in the writ issued by the Company, it was alleged that the HCA1465/2014 Defendants conspired to commit fraudulent acts defrauding and injuring the Company and were in breach of their respective duties leading the Company to transfer monies to its subsidiaries for the purchase of machinery from an Italian company specializing in the manufacture of machineries for processing/handling papers at an inflated price causing loss and damages to the Company. As at the Latest Practicable Date, (i) an interlocutory judgment had been entered against Leung Kai Kuen (梁契權) and under a separate claim made by the Company a bankruptcy order had been issued against him; (ii) the action against each of Cheng Chun Keung, Thomas (鄭振強), Shiu Wai Chung (蕭偉忠) and Suntex Paper Machinery Import & Export Company Limited (順昌紙制品設備進出口有限公司), respectively, was still pending; and (iii) the claim against Leung Tat Piu (梁達標) had been settled and the action against him had been discontinued.

**(d) High Court Action 2884 of 2015**

On 5 December 2015, the Company as 1st Plaintiff together with Huizhou Fook Woo Paper Company Limited as 2nd Plaintiff commenced legal proceedings against Leung Kai Kuen (梁契權) (the “**HCA 2884/2015 Defendant**”) in the Court of First Instance of the High Court of Hong Kong, claiming the sum of US\$17,883,920.00 (or its equivalent at around HK\$138,600,381.00 @HK\$7.75 to US\$1.00). As stated in the writ issued by the Company and Huizhou Fook Woo Paper Company Limited, it was alleged that the HCA 2884/2015 Defendant under the Contract No.20110527001 entered between the 2nd Plaintiff and Burgeon Limited dated 27 May 2011 for the sale and purchase of a Waste Paper Sorting Machine procured the said sum to be paid by the Plaintiffs as a result of the HCA 2884/2015 Defendant’s negligence, breach of his director/fiduciary/employee’s duties and/or equitable duty of fidelity. As at the Latest Practicable Date, an interlocutory judgment had been entered against the HCA 2884/2015 Defendant and under a separate claim made by the Company a bankruptcy order had been issued against him.

**(e) High Court Action 734 of 2015**

On 2 April 2015, IWS Waste Management Company Limited (an indirect wholly owned subsidiary of the Company) as Plaintiff commenced legal proceedings against Cheng Chun Keung, Thomas (the “**HCA 734/2015 Defendant**”) in the Court of First Instance of the High Court of Hong Kong, claiming the sum of HK\$1,600,000.00. As stated in the writ issued by the Plaintiff, it was alleged that the HCA 734/2015 Defendant wrongfully and with intent to injure the Plaintiff and/or cause loss to the Plaintiff, defrauded the Plaintiff and concealed such fraud and the proceeds of such fraud from the Plaintiff. As at the Latest Practicable Date, such claim had been settled and a consent summons had been filed.

## 7. COMPETING INTERESTS

As at the Latest Practicable Date, the following Director was considered to have interests in a business which competed or was likely to compete, either directly or indirectly, with the businesses of the Group, other than those businesses where the Directors were appointed as directors to represent the interests of the Company and/or the Group:

<b>Name of Director</b>	<b>Entity whose business is considered to compete or likely to compete with the businesses of the Group</b>	<b>Description of business of the entity which is considered to compete or likely to compete with the businesses of the Group</b>	<b>Nature of interest of the Director in the entity</b>
Cheng Chi Ming, Brian	NWS Holdings Limited	Investment in waste management business	Director

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or any proposed Director nor their respective close associates had any interests in a business, which competed or was likely to compete, either directly or indirectly, with the business of the Group which would be required to be disclosed under Rule 8.10 of the Listing Rules.

**8. INTERESTS IN CONTRACTS OR ARRANGEMENTS**

So far as is known to the Directors, as at the Latest Practicable Date, none of the Directors or proposed Directors had any interest, direct or indirect, in any assets which have been, since 31 March 2019, being the date to which the latest published audited consolidated financial statements of the Group were made up, acquired or disposed of by or leased to or were proposed to be acquired or disposed of or leased to any member of the Group.

None of the Directors is materially interested in any contract or arrangement subsisting as at the date of this circular which is significant in relation to the business of the Group.

**9. GENERAL**

- (a) The registered office of the Company is at Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman KY1-1108, Cayman Islands.
- (b) The principal place of business of the Company in Hong Kong is at Integrated Waste Solutions Building, 8 Chun Cheong Street, Tseung Kwan O Industrial Estate, New Territories, Hong Kong.
- (c) The branch share registrar and transfer office of the Company in Hong Kong is Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (d) The company secretary of the Company is Ms. Ng Sum Yu, Phyllis, who is a fellow member of the Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries, and a lawyer of the Supreme Court of New South Wales, Australia.
- (e) The English text of this circular shall prevail over the Chinese text in case of any inconsistency.

**10. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection during normal business hours (Saturdays and public holidays excepted) from 10:00 a.m. to 1:00 p.m. and from 2:00 p.m. to 5:00 p.m. at the principal place of business of the Company in Hong Kong for 14 days commencing from the date of this circular:

- (a) the memorandum and articles of association of the Company;
- (b) the annual reports of the Company for the two years ended 31 March 2018 and 2019 respectively;
- (c) the accountants' reports on the Target Company and the Lvr run Group issued by KPMG as set out in Appendix IIA and IIB to this circular;
- (d) the report on the unaudited pro forma financial information of the Enlarged Group issued by KPMG as set out in Appendix III to this circular;
- (e) the valuation report of the Lvr run Group issued by Shanghai Rödl Partner, Certified Public Accountant Partnership as set out in Appendix IV to this circular;
- (f) the letter from KPMG on the discounted cash flows in relation to the valuation of the Lvr run Group as set out in Appendix IV to this circular;
- (g) the letter from Halcyon Capital Limited in relation to the valuation of the Lvr run Group as set out in Appendix IV to this circular;
- (h) the letter, summary of property values and valuation certificates relating to the property interest of the Target Group prepared by Citiland Surveyors Limited as set out in Appendix V to this circular;
- (i) the written consents referred to in the section headed "Qualifications and consents of experts" in this appendix;
- (j) the material contracts referred to in the section headed "Material Contracts" in this appendix; and
- (k) this circular.