FINANCIAL MANAGEMENT ASSESSMENT

A. Background

1. In 2016, the Government of the People's Republic of China (PRC) requested the Asian Development Bank's (ADB) assistance in setting up a regional emission-reduction and pollution-control facility (the Facility) to deploy advanced technologies that reduce air pollution from industries, urban infrastructure and agriculture sectors in the greater Beijing–Tianjin–Hebei (BTH) region.[1] The project will comprise a €428 million financial intermediation loan (FIL) from ADB's ordinary capital resource to foster investments, which will support air quality improvement in the region. As selected by the National Development and Reform Commission (NDRC), and the Ministry of Finance (MOF), China Energy Conservation and Environmental Protection Group (CECEP), which is a large central state-owned enterprise (SOE), will be the project executing agency. CECEP will use ADB loan proceeds to set up the Facility, which will be established as a limited partnership with CECEP as the sole limited partner. CECEP's majority-owned subsidiary, CECEP Huayu Fund Management Co., Ltd. (CECEP Huayu) or another CECEP subsidiary, with equivalent experience, approved by ADB after due diligence, will be the facility and fund manager to manage the Facility and the Funds. A Project Management Office (PMO) has been set up in CECEP. The Management Company will be responsible for ensuring the compliance of invested subprojects with the subproject selection criteria acceptable to ADB. For the implementation of the project, CECEP has selected one commercial bank: Shanghai Pudong Development Bank (SPDB), who has a broad reach within the greater BTH region, as the Account Bank and partner investor in certain funds under the project.

2. This report provides the results of the financial management assessment (FMA) and the financial performance analysis of CECEP, CECEP Huayu, and the collaborating financial institution SPDB. The assessment of CECEP and CECEP Huayu, all of which are non-bank entities, was prepared in accordance with the *Guidelines for Financial Management and Analysis of Projects* handbook of ADB[2] and ADB's *Financial Management Technical Guidance Note on Financial Management Assessment* (2015). The assessment of SPDB was prepared in accordance with ADB's *Financial Management Technical Guidance Note on Financial Due Diligence for Financial Intermediaries* (2016). The financial management assessment was based on the analysis of the information provided by the institutions and the interview with relevant staff within the institutions in accordance with financial management assessment questionnaire provided by ADB.

B. Executive Summary

3. The FMA concludes that financial management systems and procedures of CECEP, CECEP Huayu, and SPDB are all in place to perform proper financial management and reporting necessary for smooth implementation of the project. SPDB as the entrusted bank and co-investment partner of certain funds have complied with the requirements of establishing sustainable operation systems that are deemed adequate for the project's implementation. CECEP, and its 3rd-tier subsidiary CECEP Huayu, practice accrual-based accounting and follow business accounting standards of the PRC, which are consistent with the international accounting standards (IAS). Their accounting procedures are aligned with the regulations and policies issued

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[1] The greater Beijing-Tianjin-Hebei Region comprises seven metropolitan cities and provinces: Beijing, Tianjin, Hebei, Shanxi, Inner Mongolia, Liaoning, Henan and Shandong as selected by National Development and Reform Commission and Asian Development Bank.

[2] ADB. 2005. *Financial Management and Analysis of Projects*. Manila.

by MOF, which are considered effective and adequate for the project. The designated accounting and financial staff of CECEP are recognized as sufficient for the project and CECEP has a lot of experience of participating in international financial institution (IFI) loan projects or technical assistance projects. However, CECEP Huayu is found lacking in human power to undertake the designated tasks. Especially, its implementing staff in fund business related departments that are familiar with private equity investment and associated risk management is insufficient. On the other hand, since late 2015 it has made top management experience in managing both debt and equity investment funds in place as required by the project, and the Facility will only invest a limited amount in private equity opportunities, this insufficient human power weakness is deemed solvable as long as CECEP Huayu can hire and retain, in line with project implementation progress, capable debt and equity investment professionals in the implementing level. A new recruitment plan and a compensation incentive policy specially for the ADB loan project are formulated by CECEP Huayu and submitted to CECEP for approval. Once they are implemented, the insufficiency of staffing of CECEP Huayu and difficulty to retain equity investment managers can be solved. It is noted that the newly recruited staff are likely to be not familiar with ADB's guidelines and procedures on procurement, disbursement and safeguard in relation to a FIL. Appropriate measures to enhance the implementing capacity of CECEP Huayu were agreed with CECEP, and which are expected to be implemented before loan effectiveness.

4. CECEP is one of the largest central state-owned enterprise (SOE) in the PRC specialized in energy conservation, clean energy, resource recycling and environmental protection business. Its profit margin is not high but the cash flows are stable. It is financially robust and has the financial strength to undertake the fundamental investment risks (including technical, financial, market, and credit, etc.), foreign exchange rate risk, and London interbank offered rate (LIBOR) risk, etc., associated with the ADB loan. When dealing with foreign exchange rate risk and LIBOR interest rate risk, CECEP expects to obtain regular monitoring report and useful advices from SPDB and gets access to related risk-mitigating financial instruments channeled by SPDB.

5. For the past 4 years CECEP’s, CECEP Huayu’s, and SPDB’s external audit reports had an unqualified opinion. SPDB fully complies with prudential regulations of the regulator. The financial management risks were assessed to be low. Risk analyses of CECEP, CECEP Huayu and other key institutional arrangement identifies four substantial risk factors: (i) financial sustainability of the project implementation structure, (ii) timely establishment of various dedicated funds and timely identification of sufficient number of subprojects to be investment by these funds, (iii) poor performance of fund investments worse than expectation, and (iv) fund management team staffing. Conclusion of risk analysis is that the project is still deemed doable with consideration of CECEP Huayu’s capacity firm commitment, and CECEP’s resource. The project overall risk is assessed at moderate level and it can be mitigated to low level if the recommended mitigation measures are adopted.

C. Fund Flow

6. ADB will lend €428 million to MOF. MOF will sign an on-lending agreement with CECEP, and onlend the loan proceeds to CECEP on the same term and conditions. CECEP will then use the ADB loan proceeds to establish a financing facility in form of limited liability partnership (LLP) dedicated for clean air investments in BTH region. CECEP will be the limited partner (LP) of the Facility, and will designate its controlled third tier subsidiary CECEP Huayu, who will contribute a small amount of investment (about CNY1 million) to the Facility, as general partner (GP) responsible for the Facility’s day-to-day management, including searching for, carrying out due diligence on, and negotiating with other funding partners, solicitation and screening of direct investment subprojects, investment due diligence, document preparation for subproject approval

and withdrawal of ADB loan proceeds, post-investment management, and exit strategy implementation etc. As arranged by CECEP Huayu and approved by CECEP, the Facility will use ADB loan proceeds to further invest on the following three kinds of fund, (i) Regional Fund, which will be set up by the Facility in partnership with insurance capital with aim to finance CECEP internal subprojects mainly in form of debt investment; (ii) Local Fund, which will be set up by the Facility in partnership with financing platforms of local governments to finance the local clean air subprojects also mainly in form of debt investment; and (iii) Technology/Industry Specific Fund, to be established by the Facility in partnership with advanced clean air technology developers to finance their initiated subprojects mainly in form of debt and equity investment, In addition, the Facility is allowed to invest directly in form of debt on external subprojects. At the moment assessment in April 2017, the investment instruments used by the Facility will include:

- Regional Fund. The fund in the form of limited liability partnership (LLP) named as Regional Fund will be established by the Facility, possibly in partnership with Capital Investment Management Co., Ltd. (CIM) of People's Insurance Corporation of China (PICC), an investment subsidiary of PICC. The fund will have a mandate to invest on eligible subprojects in the greater BTH region developed by enterprises within CECEP group. A term sheet (See Appendix 3) has been prepared as a basis for further negotiations. The Facility will allocate up to 50% of the ADB loan proceeds to the fund (€214 million or CNY1,647.7 million)[3] in parallel with the similar amount, namely also CNY1,647.7 million, investment from PICC CIM,[4] resulting in CNY3,295.3 million or €428 million of investible capital in total in the fund. CECEP Huayu will be the GP contributing about CNY5 million and both CECEP and PICC CIM will be the fund's LP. PICC CIM will require for a fixed rate of return (around 5%–5.5% at the moment) from the fund, and in return it requires to additionally obtain CECEP's commitment on repurchasing its investment in the fund (repo commitment) and payment guarantee on the gap between PICC CIM required fixed rate of investment return and the fund's actually realized return contributable to PICC CIM (gap guarantee). The regional fund is expected to cover 70% of aggregated total investment of subprojects, of which in turn 70% (CNY2,306.7 million, 49% of total investment) will be lent to subprojects on the debt side, and the rest 30% (CNY988.6 million, 21% of total investment) will be invested to the project company equity with buyback condition (put protected equity investment [PPEI]). Unidentified local cofinancing bank will provide in total CNY988.6 million of loan, equivalent to 21% of subprojects' aggregated total investment, to the subproject company, and the rest 9% of total investment (CNY423.7million) will be contributed by CECEP subsidiaries to the related subproject companies as real (subordinated) equity. Because the regional fund controls the related project companies by holding their 70% equity shares, the subprojects' credit risk, including risk of changing fund usage, and payment delay risk (or credit risk applicable to other funds) etc., can be mitigated in this way. As per the buyback condition, the regional fund will require the subproject developer or its controlling shareholder with strong financial strength to buy back the fund's equity investment on the subproject company at certain price when interests and principal of its debt investment has been fully served. Meanwhile, to avoid any unnecessary legal dispute on the required return of PPEI, which is regarded as equity by law, CECEP Huayu just requires getting back the PPEI at book value and

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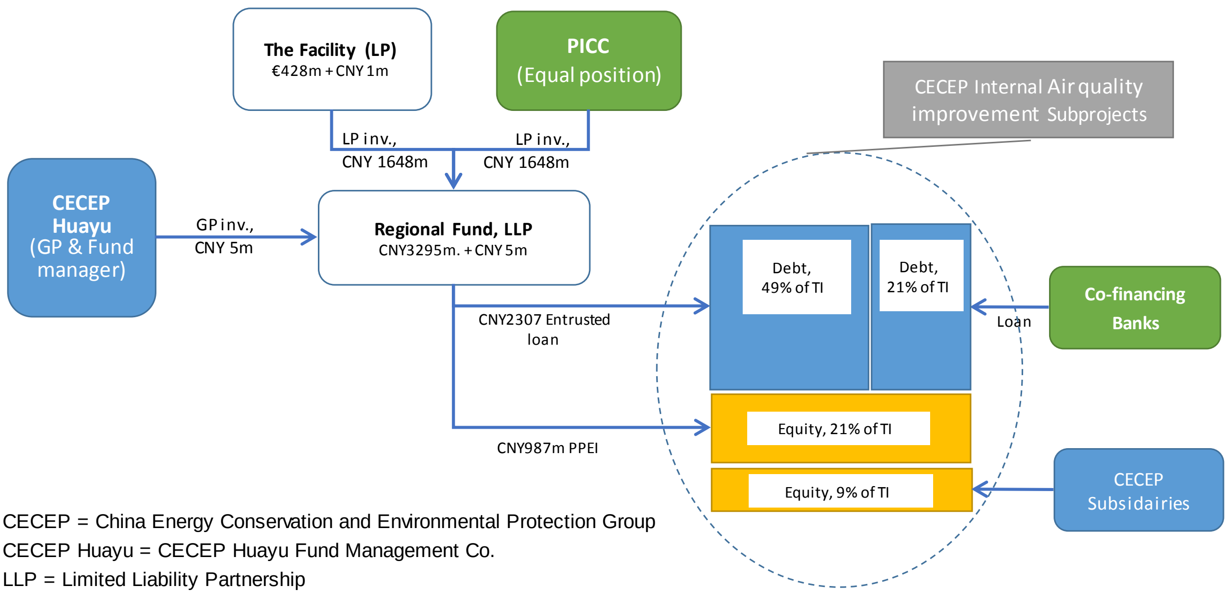
[3] Exchange rate used in the assessment is: $1 = CNY6.6045, €1 = $1.1658

[4] As per PICC Capital, their contribution can be up to 3 times of that amount from the Facility. Two times leverage ratio is a conservative estimate with consideration to lower down the weighted cost of funds for CECEP internal subprojects.

charge the required rate of return of PPEI to the debt investment, so as to ensure that the required rate of return for PPEI can be realized at the time of exit. This PPEI associated risk control technique will be utilized for investment of the Facility and all funds up to CECEP Huayu's assessment on the related subproject investment risks. This fund is expected to last for 11–15 years (no extra revolving). The fund's investment is illustrated in the following figure:

Figure 1: Regional Fund



CECEP = China Energy Conservation and Environmental Protection Group
CECEP Huayu = CECEP Huayu Fund Management Co.
LLP = Limited Liability Partnership
LP = Limited Partner
PPEI = Put Protected Equity Investment
TI = Total Investment

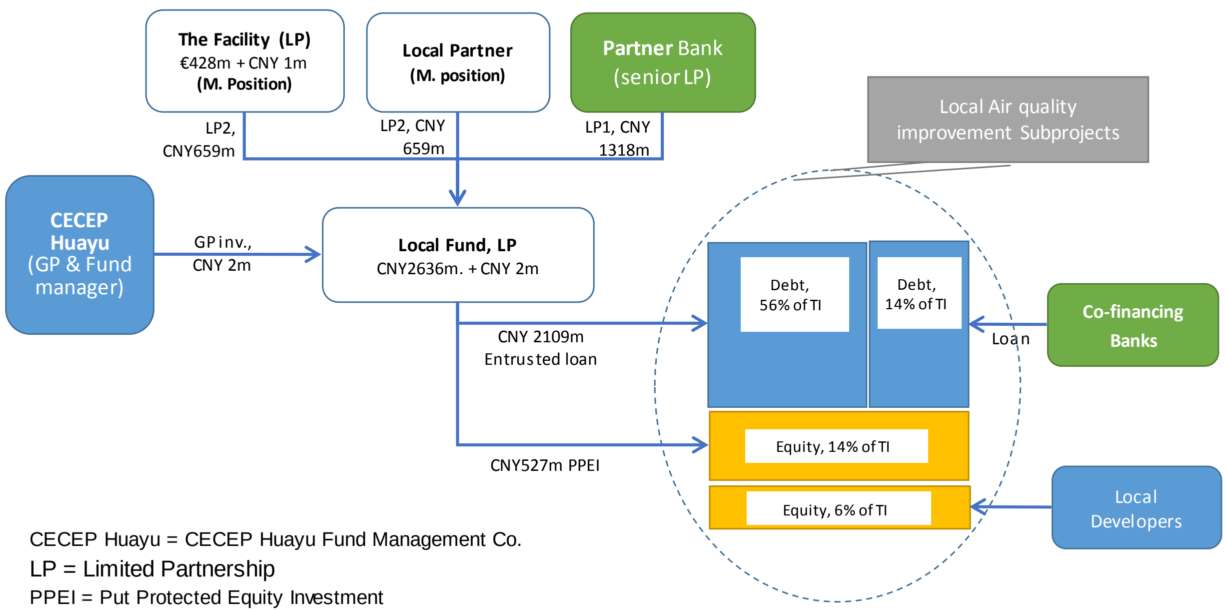
Note: numbers may not add up because of rounding.

- Local Fund(s): one or several local fund(s)[5] in form of LLP will be established by the Facility for a total capital contribution currently allocated as 20% of the ADB loan amount in partnership with local investment partners. Target limited partners include local governmental affiliated investment platforms, SOEs and local branches of commercial banks. The readiness of the local fund is relatively good for implementation. Cooperation framework has been thoroughly discussed among the participating partners and a term sheet (See Appendix 3) has been prepared as a basis for further negotiations. The local fund(s) will aim to invest in qualified clean air subprojects in the related cities. The Facility will contribute an estimated amount of 20% of the ADB loan to this type of local fund(s) as mezzanine LP, local governmental affiliated entities can be located in the same mezzanine position or a subordinated position (if so, the leverage can be larger), and unidentified partner commercial banks will allocate from their specially established asset management plan to the fund as senior LP.[6] A conservative leverage ratio

[5] At the moment of assessment, one local fund is planned to be established in Jinan City in cooperation with Jinan Caijin Investment Co., a Jinan governmental affiliated investment company in financial service sector.
[6] Usually, within the asset management plan, most of capitals come from bank's wealth management capital pool sitting in senior position, with minor share from the bank's own capital sitting at subordinated position. The wealth management capital portion is regarded as an off-balance sheet financing for banks.

of 1 (the Facility) : 3 (other partners) is expected.[7] Thus, the target volume of this type of fund is CNY2,636.3 million or €342.4 million. The GP, CECEP Huayu, will invest CNY2 million to the local fund(s) as GP responsible for the fund management. The fund is expected to bear 70% of subproject's total investment, 80%of which (CNY2,109.0 million or € 273.9 million) will be made in form of debt to subproject companies, and the rest 20% (CNY527.3 million or €68.5 million) will be invested on the subproject company's equity with buyback condition (PPEI) to control the subproject company with aim to avoid credit risk. Cofinancing bank is going to lend CNY903.9 million or €117.4 million of loan and the actual developer will contribute 30% of the subproject company's share (CNY226.0 million or €29.3 million). Because of the cofinancing, and the control of subproject company, the fund's investment risk is thus deemed low. The local fund(s) is expected to revolve for two times during the ADB loan term.

Figure 2: Local Fund



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- The Technology/Industry Specific Fund(s): another fund type shall aim to focus on investment in subprojects applying particular types of advanced technologies or in a specific sector as acceptable to both ADB and CECEP. The fund(s)will be established by the Facility in partnership with the related technology developers. Readiness of this fund is also assessed relatively good for implementation. Major corporation terms and conditions have been thoroughly discussed among the possible partners and a term sheet has been drafted as basis for further negotiation (See Appendix 3). These developers will be in subordinated or mezzanine position, and the Facility will allocate 20% of the ADB loan as planned at the time of assessment to the fund. Half of the allocated amount will be used for debt financing or PPEI and the rest 50% will be used for real equity investment. A

[7] In fact, a typical fund structure in cooperation with city governments of 1 from the Facility at mezzanine position to 1 from city government affiliated investment firm at mezzanine position to 2~6 from commercial bank at senior position is quite often to be seen.

participating commercial bank,[8] possibly the trustee bank (possibly SPDB), can utilize its wealth management capital to invest in the fund(s) as LP in a senior position. The investment leverage ratio is conservatively estimated as three times of the Facility's contribution. Thus, the target volume of this fund is estimated to reach CNY1,977.2 million or €256.8 million, of which CNY988.6 million or €128.4 million each is available for the debt component and equity component respectively. CECEP Huayu will invest a small amount of capital (about CNY2 million in total) to the fund(s) as GP responsible for the day to day investment management of both the debt and equity components of the fund. If the GP manages to generate a good pipeline of appropriate investment projects which comply with the agreed investment criteria acceptable to ADB, the leverage ratio of this fund can be easily expanded by requiring the trustee bank to provide more capital, which is not a problem to it since it usually maintains large pool of wealth management capital and its investment is in senior position. The investment of the fund(s) (CNY988.6 million or €128.4 million) for debt financing is expected to cover 50% of total investment, 80% (CNY790.9 million or €102.7 million) of which is invested as debt to subproject companies, and the rest 20% (CNY197.7 million or €25.7 million) is to be used as PPEI to control subproject company. The rest 50% of total investment is to be contributed by cofinancing banks and the technology developers. Another component of the Technology/Industry Specific Fund(s) is to provide equity investment to the technology companies that have good growth potential. The Facility is planning to put maximum 10% of ADB loan (namely CNY329.5 million) to the equity component and in proportion the capital available for equity investment can be enlarged to CNY988.6 million because of the leverage. It is also estimated that the fund's equity investment will cover 50% of incremental investment, and the rest of incremental investment will be contributed by the technology developers and/or cofinancing banks, of which bank's loan is preferred to lower down the funding cost. Possible exit strategy of the fund's equity investment includes: merging and acquisition (M&A), buyback by developer, paid from invested subprojects etc. The Technology/Industry Specific Fund(s) is expected to revolve for 2 times during the ADB loan term. Figure 3 and 4 below illustrate the two components of the technology fund(s).

[8] SPDB has expressed the willingness to become the LP for the technology fund, and CECEP Huayu is considering the cooperation conditions, but the final negotiation has not been concluded at the time of assessment

Figure 3: Technology/Industry Specific Fund- Debt Component

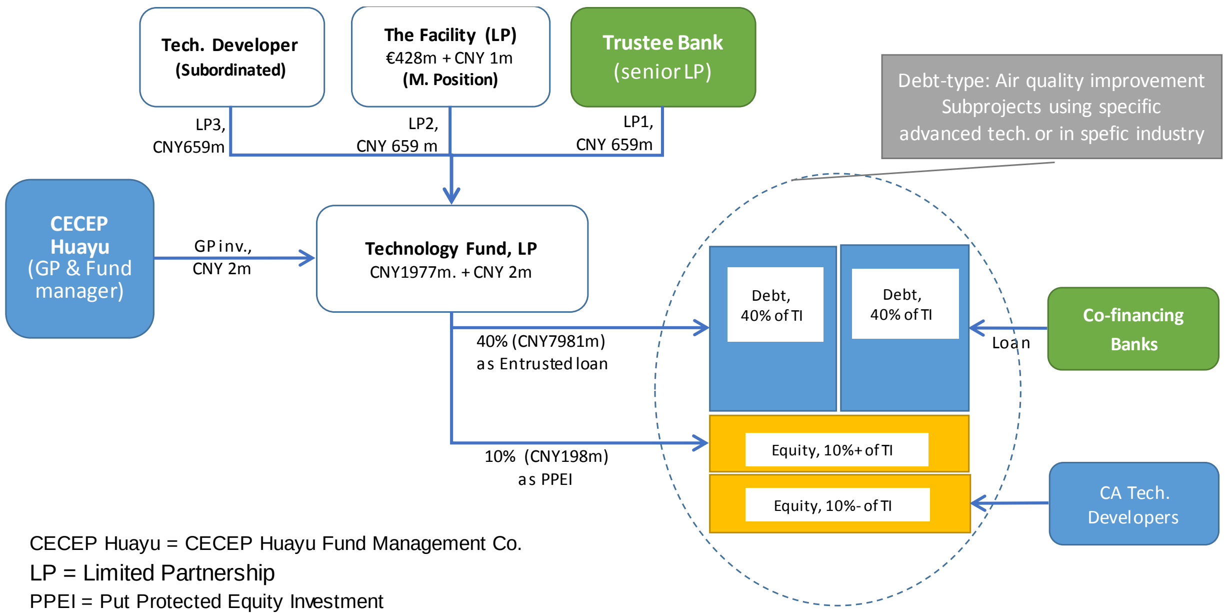

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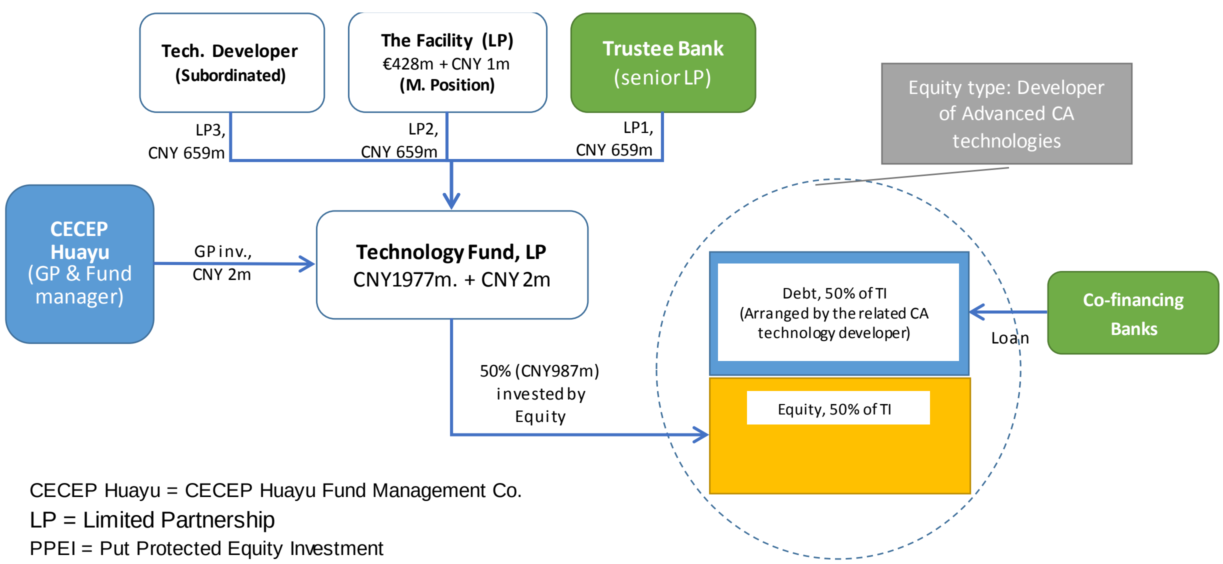
Figure 4: Technology/Industry Specific Fund- Equity Component



CECEP Huayu = CECEP Huayu Fund Management Co.
LP = Limited Partnership
PPEI = Put Protected Equity Investment
TI = Total Investment

- Direct investment: CECEP intends to utilize the rest of ADB loan proceeds left over from setting up the above-mentioned funds in the Facility (up to €42.8 million or CNY329.5 million) to directly invest on qualified subprojects which are usually outside of CECEP and cannot be covered by any of the funds set up under the Facility. The Facility's direct investment is expected to cover 40% of total investment of eligible subprojects, of which 80% (CNY263.6 million or €34.2 million) will be lent to the subproject company on the debt side, and 20% (CNY65.9 million or €8.6 million) will be invested to the subproject company from equity side in form of PPEI as a risk control measure.[9] In this case, leverage is done at the subproject level but not in the Facility. Cofinancing banks will provide loan equivalent to 48% of total investment (CNY395.4 million or €51.4 million) to the subprojects. The biggest merit of this investment is the minimized financing cost to subprojects. The shortcoming of no leverage effect in the Facility is partially mitigated at the subproject level with the involvement of cofinancing loan. The direct investment is also conservatively expected to be revolved twice. CECEP Huayu as GP will contribute CNY1 million for the direct investment function of the Facility.

7. The GP's contribution to the Facility and Funds are mainly used as working capital to cover the Facility and respective fund's upfront expenses including the initial expense and part of the fund management fee before the fund's capital investment generates cash inflows. Consequently, only the LP's contributions can be used for future investment. Each fund will be closed only when the entire investment pipeline is identified so that the actual drawdown will be nearly the same as the aggregated investment commitment by all related partners. The management fee to be charged by CECEP Huayu will remain the same at an annual rate of 1% of the ADB loan portion allocated to each fund, and will not reduce over the fund's lifetime.

8. Totally, it is expected that the €428 million of ADB loan (CNY3,295.3 million) will mobilize CNY13,251.9 million of total investment without considering the additional working capital required to the GP for upfront fund management expenses, which is estimated as about € 25.8 million, resulting in about 4 times of leverage ratio for each round of revolving. A table for indicative investment allocation and leverage effect is illustrated as follows:

Table 1: Overall Investment Allocation and Leverage Estimate (in CNY million)

Fund Name	The Facility Contribution	Investible Fund Size	Subfund Investment Type	Fund Allocation Percentage	Fund Allocation Amount	Ratio of total inv.	Counterpart Inv.	Total Inv.	GP Contribution
Regional Fund	1,647.7	3,295.3	Equity in project com.	30%	988.6	70%	423.7	4,707.6	5.0
			Debt financing to proj. com.	70%	2,306.7		988.6		
Local Funds	659.1	2,636.3	Equity in project com.	20%	527.3	70%	226.0	3,766.1	2.0
			Debt financing to proj. com.	80%	2,109.0		903.9		
Technology Funds	659.1	1,977.2	Equity in project com.	10%	197.7	50%	197.7	3,954.4	2.0
			Debt to proj. company	40%	790.9		790.9		
			Private equity inv.	50%	988.6		988.6		
Direct Investment	329.5	329.5	Equity in project com.	20%	65.9	40%	98.9	823.8	1.0
			Debt financing to proj. com.	80%	263.6		395.4		
TOTAL	3,295.3	8,238.3						13,251.9	10.0
Overall Leverage Ratio for project investment			4.02						
Plus: Working capital of GP for fund management expenses								198.8	
TOTAL INVESTMENT including working capital								13,450.7	

Source: CECEP Huayu after discussing with ADB.

9. To ensure that all of the above mentioned funds will be constructed fairly and the ADB loan proceeds will be used properly for designated purposes, the assessment report of financial strength of subordinated partner (if any) made by CECEP Huayu, the legal compliance assessment of all limited partners except CECEP made by CECEP Huayu, and the fund partnership agreement template or at least the term sheet including capital contribution of each partner, fund governance, investment committee constitution and decision making rule,

[9] Assuming this type of CECEP external subprojects can provide sufficient collateral and can borrow at the maximum level, namely, 80% of total investment comes from debt, and the rest 20% is from equity. The equity portion of the Facility's investment will constitute 40% of the subproject company's equity (40% = 20%*40%/20%). Not all subprojects will need to specially establish a project company if CECEP Huayu feels satisfactory with the counter-guarantee collaterals provided for the subproject. Only when CECEP Huayu assesses as necessary, a project company will be set up and the Facility then will control the project company. This is the reason the equity contribution from the Facility is less than counterpart's equity contribution.

subordination and seniority structure, required return, additional guarantee for certain partners, investment strategy, and subproject eligibility, etc., will be provided to ADB for ADB's endorsement before the loan approval. In addition, the templates of project agreement (PA), debt investment agreement (DIA), equity investment agreement (EIA), and private equity investment agreement (PEIA) used by the funds to invest on debt of subprojects, PPEI of project companies and real equity investment of technology companies respectively shall be developed by CECEP Huayu subject to ADB's acceptance. ADB will provide capacity building support to CECEP Huayu in these aspects on a necessary basis.

10. During the process of disbursement, upon provision of the signed fund investment partnership agreement and signed subproject investment agreement by related parties, the requested amount equivalent to the portion of the Facility's investment on funds will be first disbursed out of the total ADB loan proceeds in Euro to the Euro account of CECEP maintained in the trustee bank (SPDB), then CECEP will convert the received loan proceeds from Euro into Chinese Yuan, and transfer the amount in Chinese Yuan to the CNY conversion account (CCA) of the Facility. The funds will flow from the CCA into accounts of various funds, and finally, flow into, together with other LP's capital contribution, subprojects, project companies and technology companies through three financial instruments: (i) subproject debt investment mainly in form of entrusted loan for a fixed rate of return, (ii) project company equity investment attached with repo condition in parallel with the large portion of subproject debt investment functioning as rick control measure to ensure a successful exit. This type of investment is well known as PPEI in the PRC, and (iii) real private equity (PE)[10] investment on clean air technology development companies. No more than 10% of ADB loan proceeds will be used for this purpose: PE investment on clean air technology developers.[11] As the initial subloans are repaid, the proceeds will be reutilized to set up funds and re-lent to other subprojects. For this purpose, a revolving fund account (RFA) will be established in the trustee bank (SPDB) to receive the principal repayments and interest payment of the entrusted loans and return of equity investment. It is expected that the ADB loan proceeds will be re-utilized at least once before it is repaid to ADB. Funds accumulated in the RFA will be used for several purposes. The purposes include (i) reserve for interest risk and foreign exchange risk, (ii) project management expenses of CECEP Huayu for organizing technical assessment on potential subprojects, (iii) replenishment of default loss from investment of the Facility on funds, (iv) rewarding fund manager CECEP Huayu for good performance, and (v) repayment of ADB loan interest and principal. The rewarding rules shall be separately formulated by CECEP Huayu and approved by CECEP.

11. According to MOF, for it to onlend the ADB loan to CECEP, it requires CECEP to pledge high liquid financial assets, preferably treasury bonds, in the amount equivalent to 150% of the ADB loan to ADB as counter guarantee. In any case if CECEP does not make timely payments of both ADB loan interest and principal, MOF then has the right to dispose the pledged financial assets. This requirement causes problem to CECEP and needs to be solved during the loan negotiation period. Only after MOF accepts the counter-offer of CECEP in this regard, then the related ADB loan agreement can be signed.[12]

12. As per the fund flow arrangement, CECEP, CECEP Huayu, and the trustee bank (SPDB at the moment) are either onlending loan borrower, or shoulder the responsibility of oversight the project implementation, or manage the Facility and Funds, or maintain the related accounts and

[10] Private equity investment is referred in comparison with public equity investment through stock exchanges.

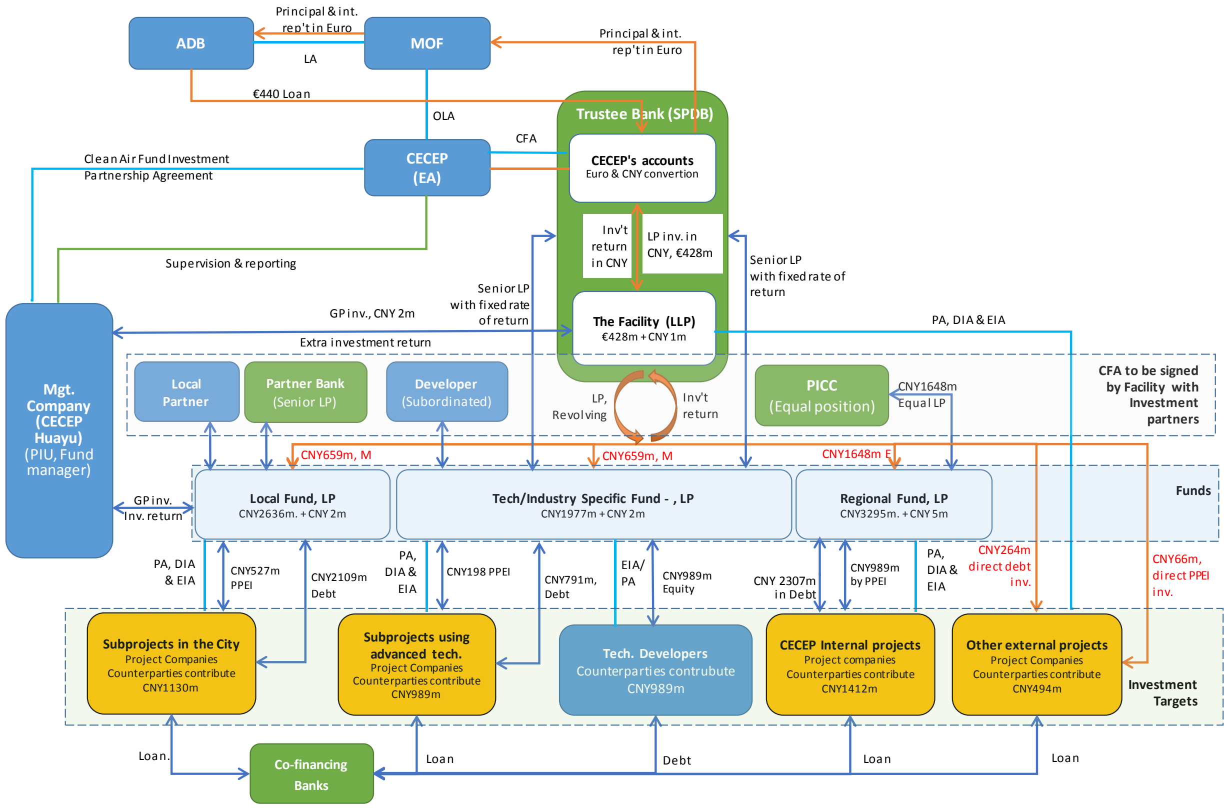
[11] With consideration of the leverage ratio in the technology fund, this requirement leads to about total CNY1,370 million of PE investment in CA technology developers.

[12] This has been settled during the loan negotiation and MOF has accepted that the trustee bank can open a letter of repayment guarantee in full amount as counter guarantee measure for the loan

provide co-investment on funds respectively, and hence will be the focus of this financial management assessment. Their financial management capacity for the designated roles and responsibilities will be critical for the loan project's successful implementation.

13. A comprehensive fund flow chart is illustrated in Figure 5.

Figure 5: Integrated Fund Flow Chart



CECEP = China Energy Conservation and Environmental Protection Group CFA = Cooperation Framework Agreement
DIA = Debt Investment Agreement EIA = Equity Investment Agreement GP = General Partner
LA = Loan Agreement LP = Limited Partnership MOF = Ministry of Finance OLA = On-Lending Agreement
PA = Project Agreement PICC = People's Insurance Corporation of China PPEI = Put Protected Equity Investment
SPDB = Shanghai Pudong Development Bank

Source: PPTA consultant based on interview between CECEP, CECEP Huayu, and ADB.

D. Assessment of China Energy Conservation and Environmental Protection Group

14. **Roles and Responsibilities.** CECEP is the executing agency for FIL project. It bears fundamental responsibilities of repaying ADB's loan interest and principal in full amount of selected currency to MOF. CECEP will undertake the following responsibilities with regard to financial management:

- Sign Onlending Loan Agreement with MOF as borrower with acceptable and affordable counter guarantee measures;
- Approve the Project Administration Manual (PAM);
- Sign Project Agreement with ADB, and make CECEP Huayu comply with the Project Agreement;
- Sign Cooperation Framework Agreement with SPDB, which is subject to ADB's prior approval, upon request from CECEP Huayu to engage SPDB as trustee bank to maintain the ADB loan proceeds of CECEP and the contributed total capital of

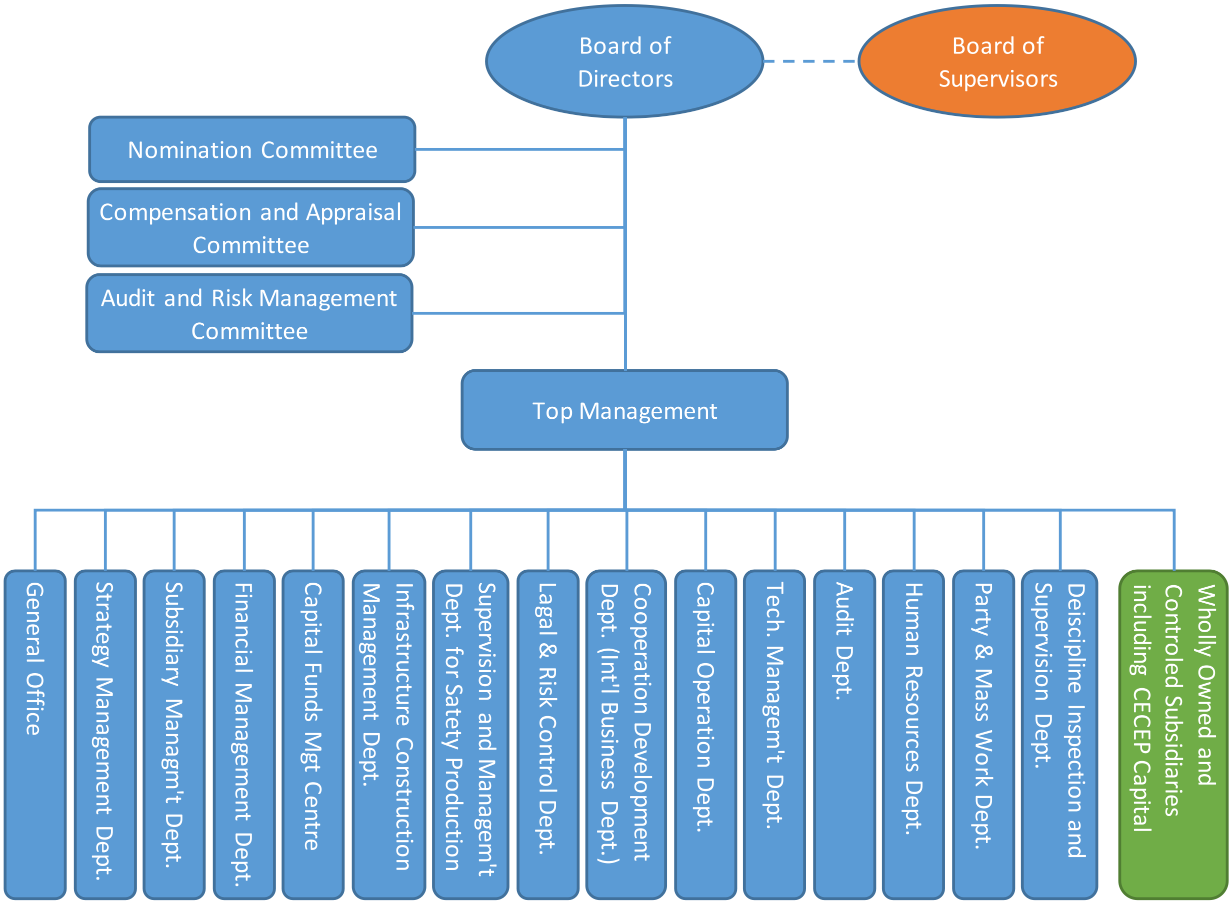
the Facility, as co-investment partner of technology/industry specific fund, and as advisor to manage the Euro interest rate risk and foreign exchange risk;

- Open account in SPDB to receive the ADB loan proceeds;
- Sign Investment Partnership Agreement with CECEP Huayu for establishment of the Facility, which is subject to ADB's prior approval. CECEP will function as the LP of the Facility, essentially bearing all risks associated with the FIL including technical risk, market risk, and credit risk of investment, Euro interest rate risk, and foreign exchange risk;
- Approve the Facility's fund investment proposals prepared by CECEP Huayu;
- Appoints investment committee members for the Facility;
- When the relevant funds are ready to invest on identified eligible subprojects or technology companies, submit withdrawal applications (prepared by CECEP Huayu) to ADB;
- When the ADB loan proceeds are received in the account, convert the funds into Chinese Yuan and make payments to the Facility accordingly
- Submit periodic monitoring report, prepared by CECEP Huayu, to ADB; and
- Undertake the responsibility of repaying ADB loan interest and principal in full amount of Euro through MOF no matter whether or not the Facility suffers serious loss from fund investment and cannot fully complete its contractual repayment obligation to CECEP.

15. **Introduction.** CECEP is a central SOE wholly owned by State-owned Assets Supervision and Administration Commission (SASAC), uniquely engaged in energy conservation and environmental protection businesses. It was incorporated with headquarters in Beijing in 1989 after the approval of the State Council with integrated social credit code (license No.) of 100000000010315. As of December 2016, it has CNY7.63 billion of registered capital, CNY147.2 billion of total assets, CNY47.1 billion of equity and over 50,000 employees. It is mainly engaged in four priority business sectors: energy conservation, environmental protection, clean energy, and resource recycling utilization with comprehensive service toward energy conservation and environmental protection as solid supporting pillar. CECEP has owned totally 543 subsidiaries with broad reach network in the greater BTH region, of which 27 enterprises including CECEP Capital are 2nd tier subsidiary. The main business domains and geographic coverage of CECEP are all in line with the purpose of ADB FIL project to fight against the air pollution in the greater BTH region.

16. **CECEP Organization.** Figure 6 shows an organizational chart of the group. CECEP management team is responsible for managing the group's daily business and its development under the guidance of the board of directors. CECEP headquarters is organized into 15 functional offices and departments, notably the (i) General Office Department, (ii) Strategy Management Department, (iii) Subsidiary Management Department, (iv) Financial Management Department, (v) Capital Funds Management Centre, (vi) Infrastructure Construction Management Department, (vii) Supervision and Management Department for Safety Production, (viii) Legal & Risk Control Department, (ix) Cooperation Development Department (also International Business Department), (x) Capital Operation Department, (xi) Technology Management Department, (xii) Audit Department, (xiii) Human Resources Department, (xiv) Party and Mass Work Department, and (xv) Discipline Inspection and Supervision Department. The staff of the Finance Management Department was partially designated to take up the tasks of the executing agency in relation to implementing the ADB FIL project. Other related departments will provide all necessary support as much as possible. Figure 6 illustrates CECEP's organizational chart.

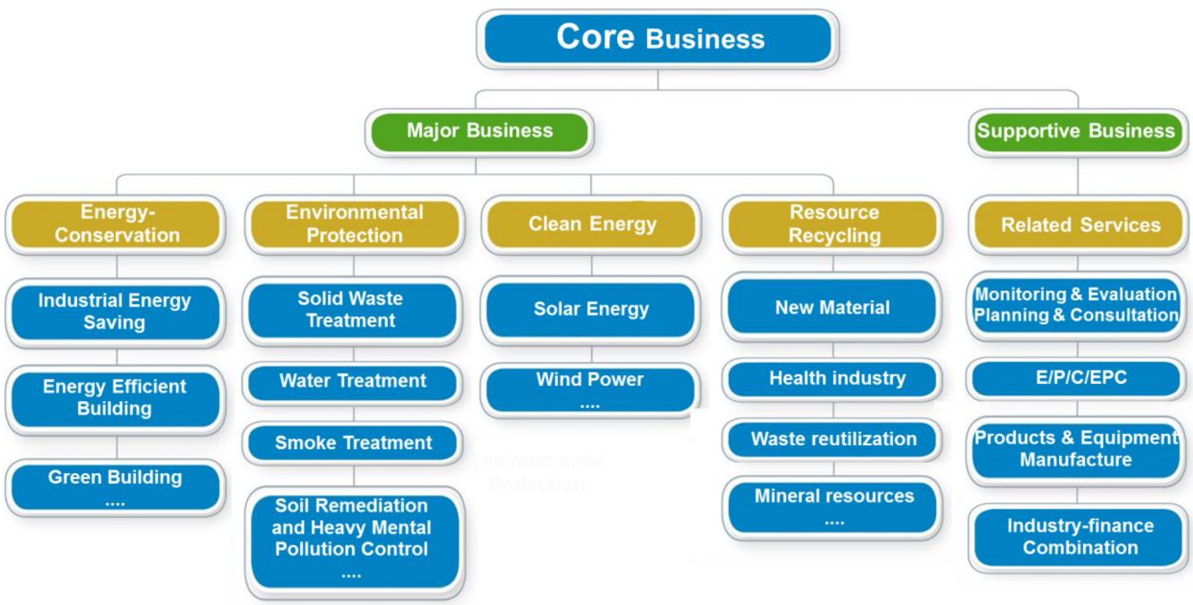
Figure 6: Organizational Chart of CECEP



Source: CECEP Website http://www.cecep.cn/g821.aspx

17. **CECEP's Core Business**. CECEP is engaged in four major businesses: (i) energy conservation including industrial energy saving, energy efficient building, and green building etc., (ii) environmental protection, including solid waste treatment, water treatment, flue gas treatment, soil remediation and heavy mental pollution control etc., (iii) clean energy, including biomass energy, solar photovoltaic energy, and wind energy etc., and (iv) resource recycling, including new material, health industry, waste reutilization and mineral resources etc. Its business line also consists of consulting services in related industries, including: monitoring and evaluation, planning and consultation, engineering, procurement and construction, integrated design for manufacture of related products and equipment, and industry-finance combined services. The business domains of CECEP fit very well with the purposes of ADB FIL project. The following chart illustrates CECEP's core business.

Figure 7: Core Business of CECEP



Source: CECEP website: http://www.cecep.cn/g827.aspx

18. **CECEP's Accounting System**. CECEP applies accrual accounting in compliance with the PRC's Accounting Standards for Business Enterprises (ASBEs). On 15 February 2006, MOF issued a new set of ASBEs, comprising one basic standard and 38 specific standards. The ASBEs accounting standards are consistent with the IAS in most aspects.[13] The ASBEs became mandatory for all large and medium-sized enterprises, regardless of their industry in 2009. CECEP, as a central SOE administered by SASAC, follows the ASBEs in practice consequently.

19. **Financial Management Procedures.** As a long existing central SOE, CECEP has established a complete set of managerial procedures acceptable to SASAC for decision making on important issues, asset and cash management, and recording and processing transactions. The procedures include (i) financial management rules, (ii) accounting policies and estimation methods, (iii) approval rules for financial expenditures, (iv) internal control and appraisal standards, (v) guidelines on financial internal control, (vi) fund plan management methods, (vii) budget management, and (viii) procurement management. Asset management rules are included in the internal control guidelines and standards as well as in the fund plan management methods. CECEP has participated in several international financial institutions' loan projects before. For example, it worked as PMO of the Energy Efficiency Financing Project of the World Bank, and it participated various technical assistance projects of ADB as well. Thus, it is relatively familiar with the requirements of ADB on financial management, disbursement, procurement, environment and social management system, and implementation, etc.

20. **Lending decision procedure for the proposed project.** Specific to the proposed ADB FIL project, CECEP will be responsible for approving the establishment of the Facility, appointing the investment committee members of the Facility and supervising and reporting implementation of the ADB FIL project. It will delegate the Facility and Funds' investment management to CECEP Huayu and authorize the decision-making power for fund's investment on subprojects and

[13] A detailed comparison of the ASBEs with the IAS can be found in the accounting firm Deloitte website: http://www.deloitte.com/view/en_cn/cn/ab75912aff1fb110VgnVCM100000ba42f00aRCRD.htm

subproject companies to the related fund's investment committee as per the approved fund investment partnership agreement. CECEP has been selected by SASAC since middle of 2014 as one of four pilot central SOEs for board of directors' governance reform, which means that its Board of Directors is fully authorized for appointing senior managers of the group, evaluating the performance of management team, formulating compensation and incentive policy, and making final decisions for key projects on their own. The establishment plan of the Facility and Funds is subject to approval by the Board of Directors of CECEP. After the board's approval on the establishment plan, the General Manager's Office meeting, which is held once every 2 weeks, will be responsible for approving legal agreements in relation to establishment of the Facility and Funds and cooperation with SPDB, and appointing the investment committee members of the Facility. Then the facility investment committee will decide, in negotiation with other LPs, the composition of investment committee of funds. The day to day fund management, including subproject solicitation and due diligence investigation, of the Facility and Funds will be carried out by CECEP Huayu, and investment decisions of each fund will be made by its investment committees respectively. This arrangement is deemed effective and efficient since CECEP Huayu is a capable and experienced entity (See assessment of CECEP Huayu) in management of fund's debt type of investments (including entrusted loan and PPEI) on energy conservation and environmental protection projects, with capacity building needs for real equity investments to the technology companies.

21. The related functional departments of CECEP mainly among Financial Management Department, Human Resources Department (HRD), Audit Department, and Capital Operation Department (COD) will specifically undertake the following duties in support of the group's top management's decision for the ADB FIL project:

- (i) Supervise the usage of fund capitals for designated purposes;
- (ii) Ensure the consistency of fund investment proposals made by CECEP Huayu with the PAM by COD, especially regarding:
    - o All partners' legal status including registration and compliance;
    - o Assessment of financial strength and sustainability of subordinated partners, if any
    - o Compliance of investment strategy, including asset allocation, eligibility of subprojects, exit strategy, risk mitigation measures, etc.
- (iii) Check and ensure the compliance of selecting process and qualification of fund investment committee members with the related fund investment partnership agreement and PAM;
- (iv) Adopt effective remuneration and incentive policy applicable to the relevant fund management team to recruit and retain capable fund management professionals;
- (v) Supervise and evaluate performance of the fund management team of CECEP Huayu for all of the funds established under the FIL project on a regular basis and take necessary actions to replace the team members who are appraised accountable for bad performance, and
- (vi) Facilitate audit of the related FIL project accounts (imprest account, REA and fund's accounts).

22. **Staffing and Capacity of CECEP's Finance and Accounting Department**. The Financial Management Department at CECEP headquarters is staffed with 11 qualified professionals responsible for the financial, budget and accounting management of the headquarters and consolidated reporting of the group. They utilize a computerized accounting software acceptable to SASAC, which can generate financial statements automatically from accounting ledgers in accordance with the PRC's generally accepted accounting principles (GAAPs). The accounting system can fulfill the function of project based accounting as well. Most

of the financial professionals under the group company work in the subsidiary level. The number of employees in the finance departments of all consolidated subsidiaries of CECEP exceeds 2,000. The minimum qualification for financial staff is that they have to hold a valid accounting professional certificate. The Financial Management Department of CECEP has experience in managing the corporation's foreign exchange risk because their ordinary businesses include a lot of international engineering-procurement-and-contracting projects in relation to advanced energy conservation, clean energy and environmental protection businesses and international trade especially for new materials and key equipment. However, they lack the experience of managing interest risk because they do not have floating foreign debt. For the FIL project, it is arranged that the Facility may be in the first place to bear the project's investment risk (including technical, market and credit risks, etc.), foreign exchange risk and interest risk but CECEP will fundamentally take the losses resulted from these risks when the Facility suffers significant investment failures because CECEP is the sole LP in the Facility, or when the preset risk cushion (interest spread charged to the Facility) is found not sufficient to cover the foreign exchange risk and interest risk, and CECEP's Finance and Accounting Department can provide advices to CECEP Huayu with regard to foreign exchange risk management whenever necessary to enhance CECEP Huayu's foreign exchange risk control capacity. As a large group company with international business relations, this department is well versed in various hedging strategies, use of hedging instruments, and experienced in protecting the corporation against such risks.

23. **Staffing and Capacity of CECEP's Supervision and Audit Department**. CECEP has established its own Audit Department in charge of the internal audit arrangement for the group company and its subsidiaries. It has established basic internal audit codes in compliance with national regulation on accounting and verification of cost, expenditures, and revenues, and on avoiding leaks, fraud and corruption. Its tasks include the audit of (i) revenues and expenditures, (ii) state owned asset value preservation and addition, (iii) performance of top management leaders of the group as well as its subsidiaries, and (iv) projects' implementation process. It is also responsible for drafting the internal audit rules applicable in the CECEP group. It can assign audit tasks to subsidiaries and inspect the auditing work of the subsidiaries. This department has nine employees, all of which have a bachelor or a higher degree and hold professional qualification as auditor. Overall, CECEP employs over 500 internal auditing staff. CECEP will need to rearrange the internal audit on the project's accounts, with the necessary staff support from CECEP Huayu.

24. **CECEP's Financial Performance.** Compared to the ADB loan size, CECEP has a very large scale of assets and shareholder's equity. According to the consolidated financial statements, CECEP experienced a period of high growth of asset scale between 2011 and 2016. Total assets value increased from CNY61.6 billion in 2011 to CNY135.9 billion in 2015, and CNY147.2 billion in 2016, almost 43 times of ADB loan. The 19% on average of high and lasting annual growth was mainly driven by the group's continuous investment and expansion of existing businesses. The total owner's equity increased from CNY20.1 billion in 2011 to CNY33.3 billion in 2014, CNY42.8 billion in 2015, and CNY47.1 billion in 2016, with the same growth pace of 19% annually, which is almost 14 times of the ADB loan. The equity growth is mainly driven by the retained earnings and the continual capital injection from SASAC. Gross revenues continually increased by 81% during 2011–2016 from CNY26.8 billion in 2011 to CNY46.4 billion in 2014, remained relatively unchanged in 2015, and then further increased to CNY48.5 billion in 2016. On the other hand, the group's profitability continually kept positive and not negatively affected by the macro economy's declining growth: net income grew from CNY1.3 billion in 2011 to CNY2.5 billion in 2014, and CNY2.8 billion in 2015, and only dropped a little bit to CNY2.3 billion in 2016. The large scale of assets and equity in comparison to the ADB loan, which, as a sovereign loan, has the highest repayment priority for CECEP, will provide solid debt service capacity for CECEP to repay

the ADB loan in time in full amount even in the worst case where the Facility suffers significant loss.

25. The net profit margin of CECEP has been maintained relatively stable in the last 6 years, in the range of 4.7% to 5.9%, indicating that CECEP has a stable profit-making capability resulted from both revenue earning and cost controlling aspects. The liquidity of CECEP is in an acceptable range. Its current ratio during 2011–2016 is always higher than 1.0 and stands at 1.6 times in 2016. As of December 2016, CECEP holds a great amount of liquid financial assets available for sale (CNY5.5 billion, 15% of current liabilities). These financial assets provide an additional cushion to hedge liquidity stresses, because these assets can be readily liquidated in existing financial markets (interbank market, or stock exchanges, etc.), if some current liabilities cannot be met directly by current assets.

26. Although CECEP has focused its business and investment on the four priority sectors, and most of them are capital-intensive, it has maintained a relatively robust financial structure: its total liabilities to assets ratio is in the range of 65% to 73%, averaged at 68.7% between 2011 and 2016, and standing at 68% in 2016. This ratio is generally deemed as good and indicate that CECEP may have further debt financing potential. With regard to non-current assets, CECEP has experienced fast growth. Its non-current assets stand at CNY91.9 billion in 2016, almost 2.5 times of that in 2011, consisting of net fixed assets (54%), construction in process (15%), intangible assets (9%) and available for sale financial assets (6%), indicating the group had massive capital investment on new projects and merger and acquisition of new companies, further implying a reasonable expectation of increasing net operating cash inflows in the future. Meanwhile, it is noted that asset devaluation loss has been appropriately accounted in every year with benchmarking to market.

27. The asset of CECEP is conservatively accounted, thus leading to a good quality of accounting. As of 31 December 2016, with regard to current assets, it holds CNY16.5 billion of cash, and CNY600 million of tradable financial assets. Its gross account receivables are increasing but are still moderate from CNY12.5 billion in 2015 to CNY13.5 billion in 2016. CECEP has set aside sufficient bad debt loss reserve to counter potential risks, for example, it appropriated about 10% of gross account receivable as bad debt loss reserve in 2015.[14] Its inventory is also set aside significant amount of loss reserve resulted from possible price decline, e.g., CNY101 million of inventory loss reserve is appropriated in 2015. As of December 2016, CECEP's construction in process has been maintained at high level over CNY13.7 billion for 3 years. Most of the construction in progress consist of solar/wind power plants, waste heat to power generation, and municipal waste realization projects, all of which will have stable cash flow generation capability. To sum up, CECEP has maintained its asset in good quality.

28. However, compared to the debt financing scale each year, the cash flow from operation of CECEP alone is not sufficient to meet the corporation's debt service obligation and regular capital expenditure plan if without resorting to external financing in both equity and debt sides, as reflected by 0.1–0.4 of debt service ratio in all years from 2011–2015. Typically, CECEP relies on new loan borrowing, new debt issuance and new capital injection as well as the cash flow from operation to serve the existing debt and meet the planned capital expenditure demand. CECEP has large amount of credit line with major commercial banks in the PRC totally amounting to CNY 500 billion, of which CNY450 billion ($64.2 billion or more than 120 times of the proposed ADB loan size) is unused and available for future borrowing as of the end of April 2017. It also has the highest domestic rating of AAA issued in June 2016 by Dagong Global Credit Rating Co., Ltd.,

[14] The related information of 2016 is not available at the time of assessment.

one of the four large credit rating agencies in the PRC. Consequently, CECEP can easily issue corporate bonds at low interest rates in the interbank market or stock exchange. In fact, in August and November 2016, CECEP issued two green corporate bonds with a total amount of CNY5 billion in Shanghai Stock Exchange. The green bonds were actively purchased by investors at an interest rates of 25 bps lower than the market rate. In addition, it has been illustrated that each year CECEP gets SASAC's capital injection. As an example, just in 2015, CECEP got government equity investment amounting to CNY9.3 billion and it borrowed CNY78 billion from banks and debt market, both of which adding together are sufficient to repay the debt service of CNY77 billion in that year.

29. Overall, as the only one central SOE dedicated in energy conservation and environmental protection business, there are implied expectations from financiers that CECEP can get necessary funding support from the central government for the designated investment tasks. With the equity enhanced, CECEP can get more financing capacity from debt side. Except for the debt service coverage ratio, other major aspects of CECEP's financial standing are relatively robust. CECEP remains quite profitable and it is projected to continue this momentum. It has no problem in paying interest obligation and its financing structure is sound with more debt raising space. Its assets scale is 43 times of the FIL amount and even its net asset value is over 14 times of the FIL scale. As confirmed by the rating report made by Dagong Global Rating Co. and the action taken by debt market investors to buy CECEP's green bond, CECEP's debt service capacity is still strong although it has low debt service coverage ratio.

30. Key financial performance indexes of CECEP's past financial performance, based on its audited financial statements from 2012–2015 and unaudited financial statements of 2016, are summarized in Table 2.

Table 2: Key Financial Data for CECEP, in CNY million

Agency	CECEP					
	2011	2012	2013	2014	2015	2016
Sales Revenue	26,781.2	33,194.1	41,258.0	46,377.6	46,399.8	48,485.5
Net Operating Income	1,463.5	1,625.8	2,245.0	2,444.4	2,247.5	2,735.4
Earnings Before Tax	1,884.1	2,249.7	3,027.8	3,481.3	3,855.8	3,575.2
Net Income	1,305.8	1,731.3	2,169.5	2,513.9	2,753.1	2,291.9
Current Assets	25,043.5	32,355.7	42,137.0	47,172.7	56,000.8	55,348.7
Account Receivables	3,341.0	7,003.0	8,408.7	10,790.1	11,250.1	13,527.1
Fixed Assets	18,780.3	26,479.1	31,341.1	39,873.3	42,646.6	50,021.2
Total Assets	61,607.6	82,382.6	103,527.0	121,786.9	135,876.0	147,223.4
Current Liabilities	18,525.0	23,762.9	32,315.2	41,603.6	41,310.4	35,587.3
Long-term Liabilities	23,016.2	30,029.5	40,607.0	46,911.2	51,790.1	64,491.3
Shareholder Equity	20,066.4	28,590.2	30,604.8	33,272.1	42,775.6	47,144.8
EBITDA	3,508.8	4,387.2	5,782.2	7,061.4	7,908.4	6,854.6
Interest expense	1,431.1	1,876.5	2,424.7	3,201.9	3,651.0	3,265.5
Growth Index of Sales (2011=100)	100.0	123.9	154.1	173.2	173.3	181.0
Growth Rate of Assets (2011=100)	100.0	133.7	168.0	197.7	220.6	239.0
Months of Sales in Receivables	1.5	2.5	2.4	2.8	2.9	3.3
Current Ratio	1.4	1.4	1.3	1.1	1.4	1.6
Interest Coverage Ratio	2.5	2.3	2.4	2.2	2.2	2.1
Debt Service Coverage Ratio	0.4	0.1	0.4	0.1	0.1	no data
Total Liabilities-Asset Ratio (%)	67.4	65.3	70.4	72.7	68.5	68.0
Operating Income Margin (%)	5.5	4.9	5.4	5.3	4.8	5.6
Net Profit Margin (%)	4.9	5.2	5.3	5.4	5.9	4.7
Net Profit Rate of Assets (%)	3.1	2.7	2.9	2.9	2.8	2.4
Net Profit Rate of Equity (%)	9.4	7.9	9.9	10.5	9.0	7.6

CECEP =China Energy Conservation and Environmental Protection Group Co., EBITDA = earnings before interest, taxes, depreciation, and amortization.

Source: CECEP's audited financial statements, 2012–2015 and 2016 financial statements (lack of cashflow statement)

31. **External Audit of CECEP**. CECEP is subject to annual external audits by a certified public accounting firm accredited by SASAC in accordance with the PRC's Auditing Standards and the tasks assigned by SASAC. CECEP's external auditor in 2012 through 2015 is Zhongqinwanxin CPAs. The review of the external audit reports confirmed that the external auditors had issued standard no qualified opinions for the last 4 years.

32. **Forecast of CECEP**. To comply with the corporate's mid- to long-term development plan and to meet SASAC's requirement of positioning the corporate as a pilot state-owned capital investment company, CECEP has drafted a development plan covered the period from 2016 to end of 2020, which was approved by the board of directors and is used as the corporate's business development guidelines. Key indicators in the development plan include: (i) maintain the position of the pillar player and leading company in energy saving and environmental protection areas; (ii) total asset will be scaled up to CNY230 billion by end of 2020 (in comparison, CNY147 billion in 2016); (iii) operating revenues shall exceed CNY110 billion by end of 2020 (CNY48.49 billion in 2016), and (iv) before tax profit shall exceed CNY7 billion by end of 2020 (CNY3.57 billion in 2016). Comparing the 2020 targets with the 2016 standing indicates that there is a large gap and thus also growth potential for the company to pursue in the coming 4 years from 2017–2020. The plan is assessed to be a reliable projection of CECEP's future financial standing, because it will be used by SASAC to evaluate the top management's performance. And if targets

set out in this development plan can be achieved, there will be no doubt that CECEP's financial standing will remain robust and strong.

33. Since CECEP holds an AAA credit rating for a long term and its rating status is stable, with combination of the above information, its solvency capacity for the ADB loan repayments can be forecasted to maintain strong.

E. Assessment of CECEP Huayu Fund Management Co., Ltd.

34. **Role and Financial Management Responsibilities of CECEP Huayu during Loan Implementation**. CECEP Huayu will function as the Facility and Funds Manager for the FIL project and be responsible for the day-to-day management of the Facility and all funds. It will not bear any risk for the ADB loan proceeds and will be responsible for its capital contribution in each fund. But its compensation is partially linked to the performance of funds under its management. It will undertake the following financial management duties:

(i) Find suitable partners for funds, prepare, with capacity building support from ADB, all related legal documents in line with the PAM and negotiate with partners for setting up the relevant funds;
(ii) Carry out due diligence on investment partners of each fund with regard to their legal existence and compliance, and the subordinated partner's financial strength etc., develop the investment proposal for each fund and submit it for CECEP's approval;
(iii) Approve investment committee members for each fund, subject to CECEP's compliance check;
(iv) Solicit and conduct due diligence on subprojects as per the investment strategy/criteria set out specifically for each fund, and organize the investment committee meeting to approve subproject investment for the funds;
(v) Identify, assess and approve the trustee bank for each fund;
(vi) Prepare withdrawal applications with the necessary supporting documents for CECEP in accordance with the investment schedule of the Facility and Funds;
(vii) Establish ESMS with sufficient staffing and carry out ESMS compliance check on each subproject to be invested using ADB loan proceeds;
(viii) Identify, and appraise private equity investments including a definite exist strategy in innovative technology companies and organize the related investment committee to make investment decision for the technology/industry specific fund;
(ix) Prepare stand-alone financial statements for each fund and consolidated financial statements for the Facility, funds, and project accounts with support from SPDB;
(x) Monitor interest payment, return from equity investment, and principal repayment of entrusted loans and equity investment by the subborrowers;
(xi) Monitor and report implementation progress in cooperation with SPDB and trustee banks of the funds; and
(xii) Coordinate SPDB and fund trustee banks for audit of FIL related project accounts.

35. CECEP Huayu is selected by the executing agency CECEP as fund manager of both the Facility and Funds. This appointment is justified by the following reasons:

(i) **Trust issue:** the ADB loan project is a sovereign loan borrowed by CECEP, a central SOE. There is a regulation set by the government requiring that the top management of SOEs should be held accountable for preserving and adding value of state-owned assets under its management. The Facility and Funds established under the ADB loan project are regarded as state-owned assets. High level of trust as well as professionalism is required by CECEP for selection of the related fund manager. A direct way to realize the trust relation is through shareholding control mechanism. Since CECEP essentially controls CECEP Huayu through its second tier subsidiary CECEP Capital, it has adequate means to make CECEP Huayu management team accountable and thus can trust CECEP Huayu to be the fund manager.

(ii) **Team building:** Compared to the fund management company, the team that actually manages the funds directly decides the success of fund investment. Although not selecting external fund management companies, both CECEP and CECEP Huayu have recognized the need and importance of establishing a professional team to manage the related funds and has made commitment to formulate a performance-based compensation incentive policy for the management team of the related funds so as to retain capable professionals to undertake the related tasks.

(iii) Under the ADB loan project, all investments made by the Facility and Funds are in the sectors of energy conservation and environmental protection, investment return on which is not high on average. Risk control capability especially for technical risk control is very important to achieve the expected performance of the related funds. CECEP Huayu, as subsidiary of CECEP, has the advantage over external fund managers of mobilizing technical resources to the maximum extent within CECEP to properly assess the technical risk of all subprojects.

(iv) Under the ADB loan project, around half of the ADB loan proceeds will be used to finance CECEP internal subprojects. CECEP Huayu, as subsidiary of CECEP, also has the advantage over external fund managers in efficiently clinching the related investment deals.

(v) CECEP Huayu has hired a professional fund management team since late 2015 who are experienced in both debt and equity investments and have proven track records of outstanding performance. The operational result in 2016 also illustrated the capacity of the new management team. As such, the expected outcome of investment can be achieved.

(vi) Functional departments of CECEP can closely supervise CECEP Huayu for implementation of the ADB loan project and evaluate CECEP Huayu's performance through existing procedures on a regular basis because CECEP Huayu is located within the office of CECEP Capital and is governed by the financial management system of CECEP.

36. When assessing the viability of potential subprojects, CECEP Huayu may seek technical support from CECEP. It is understood that CECEP Huayu will utilize the internal capacity within CECEP whenever possible and outsource qualified external experts whenever necessary for these tasks.

37. **Shareholders and Organizational Structure.** CECEP Huayu, headquartered in Beijing, was established and controlled by CECEP in 2010 with CNY200 million of registered capital. In 2015, after CECEP Capital was established,[15] CECEP Huayu was restructured to be subsidiary of CECEP Capital. As of April 2017, its paid-in capital is CNY60 million, and thus CNY140 million of committed capital is to be paid by the investors in accordance with the new funding need of CECEP Huayu as approved by the board of directors. CECEP Huayu has three shareholders who are shown in Table 3 and its organizational structure is shown in Figure 8. For each fund under the management of CECEP Huayu, a specific fund investment committee will be established to review and approve the investment projects appraised by CECEP Huayu. Usually the investment

[15] The financial standing of CECEP Capital was assessed in Annex to this report.

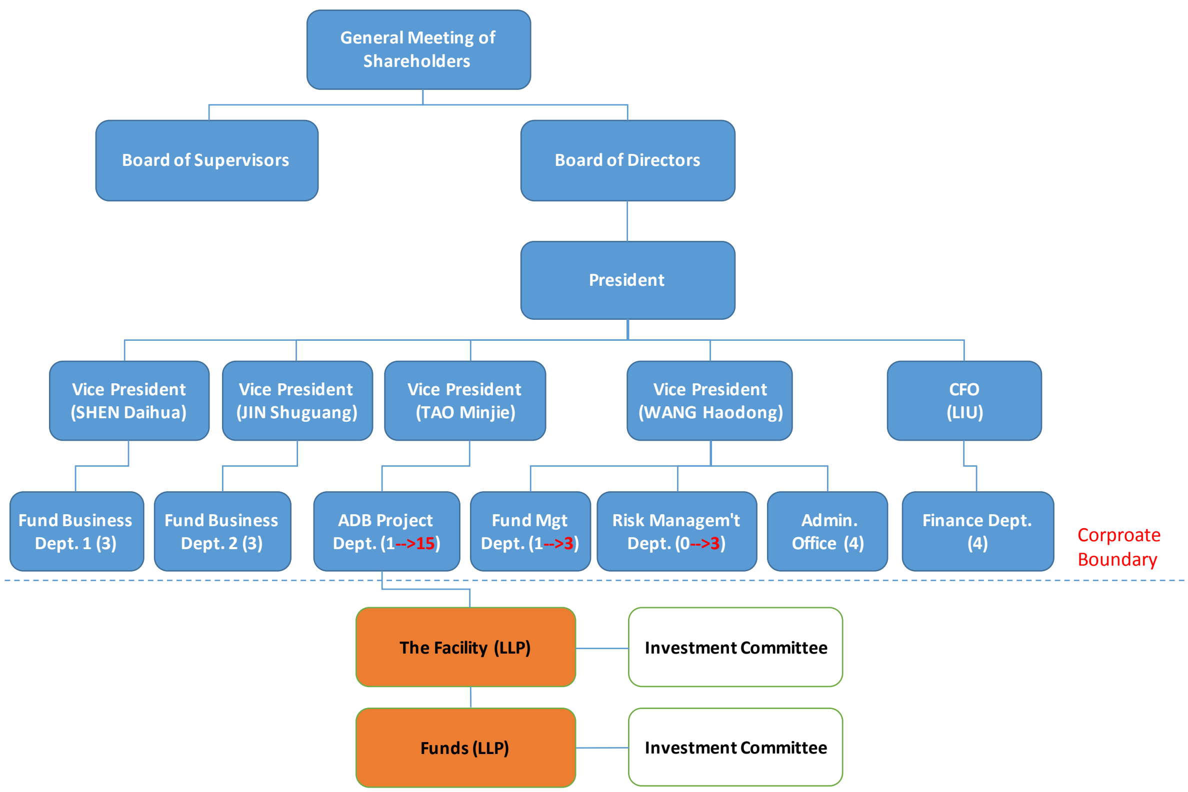
committee members are nominated by GP subject to approval by LP. This common practice will be applicable for the funds under the ADB loan project as well. A review of CECEP Huayu's organizational structure concludes that this is a typical structure applied by many fund management companies in the PRC, and the duties are properly segregated among different responsible departments and top management members.

Table 3: Shareholders of CECEP Huayu

No.	Name of Shareholders	Percentage of shareholding (%)
1	CECEP Capital	55.00
2	Jiangsu Tianqin Investment Co.	28.00
3	Shanghai Pumao Investment Management LLP	17.00
	Total	**100.00**

CECEP Capital = CECEP Capital Holdings Co., Ltd., LLP = limited liability partnership.
Source: CECEP Huayu Corporate Charter

Figure 8: Organization structure of CECEP Huayu



Note: Numbers in red means that of employees in the department after the related recruitment plan has been completely implemented.
Source: CECEP Huayu's replied ADB Due Diligence Questionnaire and new recruitment plan

38. **Major Businesses.** CECEP Huayu is engaged mainly in investment and asset management subsector of service sector. It is approved by government authority to run business within the following scope: industry and equity investment fund management, establishment of industry and equity investment fund, asset management, investment, and investment consulting. The proposed FIL will involve business within the authorized business scope of CECEP Huayu.

39. **Governance and Decision Making Process.** According to the latest corporate charter, the Board of Directors of CECEP Huayu consists of five directors, of which three are appointed by CECEP (through CECEP Capital), one by Jiangsu Tianqin, and one by Shanghai Pumao. The board chairman is nominated by CECEP, and approved by over half of board members. The board is responsible for, among others, the following duties: (i) approve the company's operation plan and investments; (ii) formulate annual financial budget plan and budget implementation appraisal; (iii) formulate the company's basic management systems; (iv) recruit general manager, deputy general managers and other senior managers and decide their responsibilities and remunerations, and (v) approve the composition of investment committee and approve the investment decision making procedures and standards developed by the investment committee. All directors have long time related professional experience in capital market operation, asset management, and investment in energy conservation and environmental protection sector, thus accumulating in-depth investment professional and legal knowledge, broad individual connection resources, and necessary skills for management of fund investment. The background of board members of CECEP Huayu is illustrated in Table 4:

Table 4: Member of Board of Directors

Name	Birth	Sex	Post	Degree	Professional title	Other Related Expereince
LI Zengfu	09/1964	M	Director	Bachelor	Senior Econimist	**China Infrastructure Construction Material Corp.**: Manager of Futures Dept.; **China Environmental Protection Corp.**: General Economist **CECEP**: Vice director of Capital Operation Dept.; Director of Infrastructure Construction Management Dept., and GM of Capital Operation Dept.
TANG Xingyu	04/1966	M	Director,Chairman	Master of economy	Senior Econimist	**China Information Trust Investment Co.** (6yrs): Deputy manager of Tianjin Securities Operation Dept.; Assistant manager of Fund Operation Dept.; and Deputy manager of Int'l Operation Dept. **Daye Int'l Leasing Co.** (5yrs); GM; **China Electronic Finance Co**. (10yrs): GM of Risk Management Dept.; Assistant GM, General Legal Advisor; and Vice GM **CECEP** (4yrs): Vice director of Financial Management Dept.
YAN Shengjun	11/1968	M	Director	Master	Senior Econimist	**Hai'an County Construction Material Industry Co.** (3yrs): Secretary, Office director **Organization Department of Hai'An County (**2 yrs) Officer **Hai'An Sawbit General Co.** (2yrs): Deputy GM, and GM **Jiangsu Tianying Saite Environmental Protection and Energy Group**: Chairman since 1997 **Jiangsu Tianjing Environmental Protection and Energy Co.** Chairman since 2011
ZHAI Yuhong	07/1973	M	Director	Bachelor	/	**Construction Bank of China** (6yrs): Vice director in Nanjing branch **Jiangsu Tianze Asset Management Co**.(5yrs): GM **Shanghai Meilan Investment Management Co.** (2yrs): executive director **Taihailian (Shanghai) Equity Investment Management Co.** (2yrs): Chairman
LIU Hongyan	02/1968	F	Director	Master	/	**Peiking University**: Lecturer **Faxing Gaocheng Securities Co.**: Research assistant **The George Washington University of USA**: Teaching Scholar **US Mortgage Bankers Association**: Assistant Researcher **CAS Investment Management Co., Ltd.**: Senior Manager **CECEP Huayu**: GM of Fund Business Dept. 1 **CECEP Capital**: Vice GM of Fund Management Dept.

40. The board of supervisors consists of three supervisors, nominated by Jiangsu Tianqin,

Shanghai Pumao, and employee representatives, respectively. The board of supervisors has the right to inspect the company's financial status and supervise the office duties conducted by directors and top management and propose correspondent penalty for identified rule violating activities.

41. CECEP Huayu's general manager, Mr. Zhai Yuhong, is nominated by Shanghai Pumao, and the chief financial officer is nominated by CECEP Capital. The General Manager is responsible for nominating vice general managers, managing the company's routine operations, and hosting the general manager's office meeting, which is attended by all vice general managers as well as chief financial officer. The current management team was appointed by the Board of Directors in December 2015 on a market competitive basis with aim to enhance the competitive capability of CECEP Huayu in mobilizing CECEP internal and external resources. A review of the top management's professional records of CECEP Huayu, as illustrated in Table 5, indicates that its management has been actively involved in industry operation, investment, investment management and asset management, and it is experienced with capital raising, investment implementation, post investment management and exit implementation. They are considered capable of fulfilling the tasks assigned to them under the FIL project.

Table 5: Member of Top Management

Name	Birth	Sex	Post	Degree	Professional title	Related Expereince
ZHAI Yuhong	07/1973	M	GM since 2015	Bachelor	/	**Construction Bank of China** (6yrs): Vice director in Nanjing branch **Jiangsu Tianze Asset Management Co**.(5yrs): GM **Shanghai Meilan Investment Management Co.** (2yrs): executive director **Taihailian (Shanghai) Equity Investment Management Co.** (2yrs): Managing Partner
WANG Haodong	08/1972	M	Vice GM since 2015	Master in Finance, Hong Kong University	/	**China Aviation Industry Supply and Sales Co. East China Branch** (8yrs): Office director, Assistant to GM **Shanghai Jinchuang Investment Management Co.** (3yrs): Vice GM, Board secretary in charge of investment **Shanghai Aviation Comfortable Environment Tech. Co.**, (2yrs): Chairman, GM **Shanghai Yinhu Investment Management Co.** (2yrs): Chairman and GM
SHEN Daihua	11/1981	M	Vice GM since 2015	Bachelor, Zhejiang University	/	**Xiangcai Securities Co.**(1yr): Assistant security analyst **Beijing Luyuantianwen Investment Consulting Co.** (2yrs): Vice operation director **Rongfeng Holdings Group Co.** (1yr): Investment manager **Shanghai Meilan Investment Management Co.** (1yr): Vice president **Taihailian (Shanghai) Equity Investment Management Co.** (5yrs): executive director
JIN Shuguang	03/1971	M	Vice GM since 2015	Bachelor, Peiking University	/	**Zhejiang Provincial Government Working Committee** (9yrs): Principal clerk **Anway (China) Commodity Co. Zhejiang Branch** (3yrs): Director of external affairs **Shanghai Pizza Hut Co.** (3yrs): Director of public relations **IKEA (China) Investment Co.**(5yrs): Business development manager **Tianrang Financial Service (Shanghai) Co.** (2yrs): GM
TAO Minjie	03/1977	M	Vice GM since 2015	Bachelor	/	**Shanghai Peiking Funder Technology Computer System Co.** (3yrs): Sales manager **Intel (China) Co,** (2yrs): Market specialist **Beijing Click Technology Co.** (2yrs): East China client manager **Digital China (Shanghai) Co.** (2yrs): director for Internet program **Shanghai Bestlinks Tech. Co.** (2yrs): director for new energy program **Beijing Bakai Electric Tech. Co.** (2yrs): GM of business development dept. **Shenzhen Rongtong Capital & Wealth Management Co.** (2yrs): Vice GM of Infrastructure Construction Dept.

42. Usually, to establish a new fund company under its management, CECEP Huayu requires the investment proposal to be fully discussed by the office meeting members and then a vote is given to make decision. Investment proposals that obtains over half of all votes will be regarded as approved. For approving the new fund company's investment committee composition, it is required that at least two-third of votes should be obtained. This decision-making process applies to the decision on funds' investment committee composition under the FIL project.

43. Specifically, applicable to the FIL project, the investment committee members of the Facility will be recommended by CECEP Huayu and CECEP Capital and approved by the General

Manager's Office meeting of CECEP. The investment committee members of funds will be nominated by the fund management team and approved by the general manager's office meeting of CECEP Huayu. The funds' investment decisions will be subject to the final approval of their investment committees respectively as per the designated meeting resolution rules.

44. **CECEP Huayu's Fund Management Record.** Since its establishment, CECEP Huayu has accumulated rich experience of setting up investment funds and managing the related fund's investment, which is held by the existing staff in the Fund Business Department 1 and 2 and Risk Management Department. It achieved excellent performance records for some of the funds under its management: Table 6 shows the fund management performance of CECEP Huayu in terms of the realized rate of return to the investors. Overall, CECEP Huayu has set up and managed investment funds with total amount CNY12.66 billion, and most of them have realized the expected return or had better return than expected.

Table 6: Fund Management Record (Amount in Million CNY)

Fund name	Size/Amount	Type	Rate of Return
Beijing CECEP Huayu Investment Co.	19	Limited company fund	11.50%
Beijing Huayu Huanneng Inv't Management Centre	1,000	Limited Liability Partnership	7.50%
Ningbo Huayu Qingneng Inv't Partnership	650	Limited Liability Partnership	7.2% (Debt) 8% (Equity)
Ningbo Huayu Qingneng Inv't Partnership (phase II)	1,000	Limited Liability Partnership	6.90%
Huayu Green Industry No.1 PE Investment Fund	1,400	Agreement-based investment	7% and 5.9%
CECEP Huayu (Zhenjiang) Green Industry No.1 M&A Investment Fund	5,900	Limited Liability Partnership	mini. 8% for senior and mezzhanie Investors
Shenzheng CECEP Huayu Investment Co.	890	Limited company fund	not exit yet
Nanchang CECEP Huayu Investment Centre	150	Limited Liability Partnership	not exit yet
Guohewenying No. 3 Asset Management Plan	150	Asset Management Plan	7.40%
Hezong-Chengdu Int'l Science Energy Saving Building Debt Investment Plan	500	Asset Management Plan	8.00%
PICC Property-CECEP New Material Environmental Protection Industry Fund Equity Investment Plan	1,000	Asset Management Plan	6.90%
Sum	12,659		

45. **Investment Record of CECEP Huayu's Current Management Team**. In addition, the relevant investment performance of CECEP Huayu's management team is also reviewed since their skills, experience and knowledges accumulated in their previous posts can be utilized for the FIL project. Particularly, the general manager Mr. Zhai Yuhong and Vice General Manager Mr. Shen Daihua have been involved in a lot of equity investments during 2011–2015. The following list is with total invested capital of CNY763 million, where Mr. Zhai played the leading role and Mr. Shen played the implementing role, all of which have generated quite large investment return:

- Invested CNY80 million on a leading domestic waste to power operator and equipment manufacturer in 2013 and exited in 2014 by merger with a listed company-China Tianyin (000035.SZ) for a realized return of CNY320 million.
- Invested in 2013 CNY450 million on a leading environment monitoring equipment and solution supplier, and the investee was merged with Shangfeng Hi-tech (000967.SZ) in 2015. Its investment was converted to the shares of Shangfeng Hi-tech with market value of CNY810 million at present.
- Invested CNY83 million on the 2nd largest instant needle maker of PRC in 2011, and achieved exit in 2015 at value of CNY135 million.
- Invested CNY50 million in 2011, and CNY100 million in 2013 on Dalian Wanda

Commercial Properties Co., Ltd., totally holding 9 million of its shares. In 2014, Wanda was listed in Hong Kong. The investment currently is at value of HK$300 million.

46. Mr. Tao Minjie, who is the Vice General Manager in charge of the ADB Project Department, has rich professional experience in technical companies and has accumulated ample skills and resources for establishing debt-type investment funds. For example, he participated in the establishment of 4 debt-type infrastructure investment funds with aggregated paid-in capitals of CNY19.65 billion, mostly in coordination with major commercial banks in PRC, when he worked as Vice General Manager of Infrastructure Construction Department of Shenzhen Rongtong Capital & Wealth Management Co.:

- Established Gansu Transport Investment Fund as management of the GP in December 2015 with the paid-in capital of CNY2.4 billion, and 6.5% of annualized rate of return for LP's investment.
- Established Beijing Zhong-Jiao-Jian (Bank of China, Bank of Communication and China Construction Bank) Equity Investment Fund in December 2014 with total scale of CNY3.75 billion and annualized rate of return of 7.5% for LP's investment.
- Established Beijing Zhong-Jiao-Zhaoyin (Bank of China, Bank of Communication and China Merchants Bank) City Rail Transport Investment Fund Phase I in December 2015 with the committed capital of CNY15 billion and paid-in capital of CNY5.7 billion, and annualized rate of return of 6.7% for LP's investment.
- Established Beijing Zhong-Jiao-Jianxin (Bank of China, Bank of Comm. and CCB Trust) Equity investment Fund in May 2015 with the committed capital of CNY20 billion and paid-in capital of CNY7.8 billion, and annualized rate of return of 7.3% for LP's investment.

47. **Shortcoming of CECEP Huayu's Investment Record**. However, the historical fund management and investment record of CECEP Huayu also suggested that it has been largely involved in debt-type investment. On the other hand, it is good to see that CECEP Huayu has started activities in real equity investment or venture capital investment since 2015. The engagement of Mr. Zhai Yuhong as General Manager and Mr. Shen Daihua as Vice General Manager of CECEP Huayu in charge of Fund Business Department 1 in late 2015, both of whom are experienced in private equity investment, will make up its weakness and add a great deal of value to CECEP Huayu for implementation of the ADB loan project, because the FIL project comprises of real equity investment on clean air technology companies, whose risk and return features are high out of proportion to the fund's size. Furthermore, although experienced leadership is in place, the assessment has identified the need of CECEP Huayu to attract capable equity investment professionals with relevant track records to operate and manage the fund. To do so, it is necessary for CECEP Huayu to formulate a market competitive and performance-based compensation and rewarding policy applicable to the ADB FIL related fund management team especially the fund management team to manage equity investment, subject to ADB's review and prior approval of related authority within CECEP in a timely manner. It is recommended that the recruitment of one qualified equity investment manager and formulation of incentive compensation policy be set as condition before the equity investment being started.

48. **CECEP Huayu's Financial Management and Accounting System**. Same as CECEP Capital, CECEP Huayu is also required to comply with CECEP's financial management system. Specific to this FIL project, each fund (the Facility and Funds) is a limited liability partnership company and shall have a set of accounting records and financial statements using PRC's GAAPs. And also, there is a need to consolidate all fund's financial statements into those of the Facility. With the involvement of the trustee bank, particularly SPDB who has rich experience in onlending

of international FILs and is capable of providing in-depth cooperate banking services, CECEP Huayu can obtain big assistance in recording, reporting and consolidating the related transactions. In line with CECEP's financial management system, CECEP Huayu has adopted the ASBEs, and consequently the ADB's requirement of accounting standards and procedures consistent with the IAS and the quality of accounting can be assured.

49. **Staffing and Capacity of CECEP Huayu's Investment Team and Risk Control Team for the FIL Project**. The ADB Project Department, currently led by Mr. Tao Minjie and staffed with four persons, will be responsible for the preparation and implementation of the FIL project, including fund management of the Facility and Funds. The current staffing is not sufficient to complete the designated tasks as mentioned in Role and Financial Management Responsibilities of CECEP Huayu during loan implementation. In addition, CECEP Huayu has not hired capable environmental and social management specialist to take care of the required ESMS due diligence on potential subprojects. In addition, currently CECEP Huayu just has one staff in the Risk Management Department, which is also insufficient.

50. CECEP Huayu has recognized such recruitment need, formulated a new recruitment plan of 21 staffs (See Table 7) accordingly and submitted it to CECEP Capital and CECEP for approval. Examination of the recruitment plan by ADB consultant showed that if implemented, CECEP Huayu will have sufficient staff to efficiently implement the Facility. ADB Project Department will be reinforced from one to 15 employees, mainly consisting of two directors in charge of investment and technology respectively, five investment managers (including the current one), one coordinator, four technical specialists, one ESMS specialist, Fund Management Department will be reinforced from one to three employees, and Risk Management Department will increase its human power to three employees. Now the question is timely approval and implementation of that plan. It is recommended to be described in the PAM to monitor the timely implementation of the recruitment plan in line with the ADB loan implementation progress, meaning that the new recruitment shall meet the ADB loan implementation's need but not all the listed posts are required to be fit at one time.

Table 7: Recruitment Plan of CECEP Huayu Specifically for the ADB Loan Project

	Management		Staff	
Department	**Post**	**Number**	**Post**	**Number**
Risk Management	Risk Control Director	1	Risk manager	1
			Lawyer	1
Fund Management			Financial specialist	1
			Auditor	1
ADB Project Dept.	Investment Director	1	Investment Manager	4
			Assistant	2
			Coodinator	1
	Technology Director	1	ESMS Specialist	1
			Tech. specialist	4
Sum		3		16

Source: CECEP Huayu

51. **Staffing and Capacity of CECEP Huayu's Finance Department**. The Finance Department of CECEP Huayu is staffed with four qualified personnel responsible for the financial and accounting management of the company and the funds under its management. They utilize a computerized accounting software provided by PRC's largest accounting software provider Yongyou, which can generate financial statements automatically from accounting ledgers in accordance with PRC's GAAP. The accounting system can fulfill the function of the project based accounting as well as corporate based accounting. The minimum qualification for financial staff is

the same as CECEP that they have to hold a valid accounting professional certificate. The staff of CECEP Huayu's Finance Department have not implemented ADB or other IFI projects and lack experience of managing foreign exchange risk and interest risk. Thus, CECEP Huayu cannot advise CECEP on how to manage these risks and CECEP needs to consult the trustee bank SPDB for the related risk mitigation advices and financial instruments available. There is also a need of capacity building on ADB procurement, disbursement, and reporting requirements. For the FIL project, CECEP Huayu will need to seek advices and mitigation measure support from CECEP for technical assessment of subprojects and SPDB in hedging Euro interest risk whenever necessary to enhance its FIL associated risk control capacity.

52. **Staffing and Capacity of CECEP Huayu for Audit**. The internal audit on fund invested projects is carried out by the Fund Management Department of CECEP Huayu on a regular basis. For each fund, a qualified external auditor accepted by all investors as per the related fund investment agreement will annually conduct external audit on projects invested by the fund. This practice is also applicable to all of the funds under the FIL project including both the Facility and Funds: each fund will hire an external auditor acceptable to the related investors as well as ADB to conduct external audit as per the related PAM. In addition, the PRC government will also arrange official audit on the project and project related accounts. External audit to the CECEP Huayu's financial statements is usually arranged by the CECEP, resulting in the same external auditor as CECEP and CECEP Capital. Currently, CECEP Huayu's Fund Management Department has only one professional who hold qualified accountant certificates. For the ADB loan project, CECEP Huayu has set up a new recruitment plan to hire one more auditor and one lawyer. They will conduct internal audit and organize external audit for the FIL project accounts, and they will provide cooperation for national audit agency's audit, as set out in the PAM. Once the new recruitment plan is completed in consistency with the FIL implementation progress, the staffing capacity of CECEP Huayu for Audit will become adequate.

53. **Risk Control Measures of CECEP Huayu.** To control risks, CECEP Huayu often takes the following effective management measures.

(i) **Strict client entry standards and approval process**. Only those companies meeting the entry standards and passing through the designated approval procedure can get the related fund's investment. For example, a qualified investee should have credit rating of AA and above, or have sufficient acceptable collaterals for debt-type investment and have sufficient financial strength to undertake the pre-set buy-back condition for equity investment.

(ii) **Utilization of PPEI as risk control measure for debt investment**, PPEI is used to control the invested subproject company so as to avoid unnecessary credit risk of subproject developers and make sure the capitals are used for designated purpose. This risk-mitigation technique is proved to be effective under the PRC's credit environment and will be used for the ADB FIL project.

(iii) **Applying CECEP's technical expertise in energy conservation and environmental protection.** Technical risk consists of the major part of risks associated with project investments. Since CECEP is the largest enterprise in the PRC engaged in energy conservation and environmental protection, it has built up solid competitive advantages in assessing and designing subprojects utilizing related technologies. As a controlled subsidiary of CECEP, CECEP Huayu can relatively easily utilize the internal technical resources of CECEP to evaluate the related technical risks of potential subprojects and find out appropriate risk mitigation measures.

(iv) **Formulating near market based compensation incentive policy to retain capable private equity investment professionals in the company.** CECEP

Huayu has recognized the importance of hiring and retaining key capable persons with rich experience in private equity investment management, and has formulated a compensation incentive policy. At the time of assessment, the incentive policy has been submitted to CECEP for approval. If it is approved and implemented, it is expected that sufficient number of key investment professionals can be hired and retained within the company to manage the funds under the FIL. The ADB project will set the implementation of such compensation incentive policy as a condition for loan effectiveness.

54. Particular to the ADB loan project, since CECEP as EA will bear fundamentally all risks of the ADB loan, it is quite motivated to closely supervise CECEP Huayu's fund management and evaluate the management's performance on a regular basis. If underperformance is observed consecutively for certain years, CECEP will consider changing the fund management team to control the related risks.

55. **CECEP Huayu's Financial Performance.** As a fund management company, CECEP Huayu's revenues mainly come from the management fee charged to the funds under its management. The management fee usually contains two parts: a fixed rate on the paid-capital of limited partners (ranging from 0.8%–1.5%), and a bonus for sharing the outperforming part of investment return, investment return over the expectation, which functions especially important for real equity investment funds as incentive for good performance of fund management team. Because most of CECEP Huayu's businesses have been involved with debt investments so far, its financial performance is observed robust and very stable. Cash flow match is one of its most important capacity to achieve this, and is also largely applicable to the ADB loan project. As of the end of 2016, CECEP Huayu has CNY200 million of registered capital, of which CNY60 million has been paid in, CNY47.8 million of total assets, and CNY9 million of shareholder's equity. From its inauguration in 2010 to 2012, CECEP Huayu recorded totally about CNY50 million of losses. Reasons of the significant losses are explained by CECEP Huayu Finance Department in three aspects: (i) the establishment of CECEP Huayu's fund management operation and team took some time, and even after it successfully set up some investment funds, usually funds have two years of investment period from the fund establishment, and during that period the fund's investments have not generated net cash flows and thus CECEP Huayu cannot receive any revenues from the managed funds in the beginning period; (ii) the upfront expenses for establishing the company is huge. The company was planned to be established as early as in 2006. Since then, CECEP has incurred a lot of office expenses and employee salaries amounting to CNY13 million; and (iii) soon after CECEP Huayu's establishment, CECEP Huayu's management was too optimistic on the company's future development and thus rent at high rate a large office area in Financial Street of Beijing, with too many staffs (40 employees during 2011–2012). Consequently, the office expense and salary expense were very high. However, that bad situation has been reversed since 2013.

56. A review of CECEP Huayu's financial statements has discovered that it runs investment business very well after 2013. Its revenues are steadily increasing, from CNY16.4 million in 2013 to 18.5 million in 2014, 22.8 million in 2015 and 26.7 million in 2016, reflecting simultaneously the scale up of its managed funds. Cost control is also improving. The operating margin significantly rises from about 15% in 2013, to 21% in 2014, 23% in 2015, and a remarkable 57.4% in 2016, indicating that the incremental operation cost for increased revenue is minimal. As a result, the net profit of CECEP Huayu has gone up constantly, from CNY3.3 million in 2013, to 3.7 million in 2014, 5.8 million in 2015, and 15.3 million in 2016. CECEP Huayu does not have interest-bearing debt, its current ratio is always high ranging from 3.1 to 5.3 times and standing at 3.9 times at end of 2016, and it also holds a lot of cash, CNY27.8 million at end of 2016, suggesting a good liquidity

capability and no solvency problem.

57. The conclusion of the financial analysis of CECEP Huayu's financial standing is that CECEP Huayu operates well and is financially robust for its business as usual. However, it is estimated by ADB Consultant team based on the information provided by CECEP Huayu that for the ADB loan project, the operation expenses of CECEP Huayu's management team for the first 5 years will amount to about CNY200 million, or about CNY40 million each year. Although CECEP Huayu can obtain management fee as usual for its current fund set, which is about CNY15 million annually, and will obtain 1% of invested capital as management fee as arranged by CECEP each year at time when the investment return is received by each fund for certain periods starting one year after the investment date, the initial years' cash inflow will not be sufficient to offset the operation expenses because the overall €428 million of ADB loan proceeds will be gradually invested in a period of 3 years. Therefore, the current cash holding of about CNY28 million is likely to be insufficient and there is a clear need that the three shareholders of CECEP Huayu shall inject capital proportionally as much as necessary to CECEP Huayu on a timely basis to sustain the related fund management operation. It is recommended that a signed commitment letter from all shareholders of CECEP Huayu to provide sufficient operating capital as needed by the ADB loan project shall be obtained as a condition for the ADB loan proceeds withdrawal.

58. Key financial performance indexes of CECEP Huayu's past financial performance, based on its audited financial statements from 2012–2016, are summarized in Table 8.

Table 8: Key Financial Data for CECEP Huayu
(CNY million)

Agency	Huayu				
	2012	2013	2014	2015	2016
Sales Revenue	0.1	16.4	18.5	22.8	26.7
Net Operating Income	-10.5	2.4	4.0	5.2	15.3
Earnings Before Tax	-10.5	3.3	4.0	5.8	15.3
Net Income	-10.5	3.3	3.7	5.8	15.3
Current Assets	10.9	14.0	19.7	32.4	35.9
Account Receivables	-	1.7	4.8	20.0	7.6
Fixed Assets	1.0	0.7	0.5	0.3	0.2
Total Assets	13.8	18.4	21.2	32.7	47.8
Current Liabilities	3.2	4.6	3.7	9.4	9.2
Long-term Liabilities	-	-	-	-	-
Shareholder Equity	10.6	13.8	17.5	23.3	38.6
EBITDA	-10.2	3.6	4.8	6.0	15.4
Interest expense	-	-	0.6	-	-
Growth Index of Sales (2013=100)	n.a.	100.0	113.4	139.6	163.5
Growth Rate of Assets (2012=100)	100.0	100.0	153.9	236.8	346.2
Months of Sales in Receivables	-	1.2	3.1	10.5	3.4
Current Ratio	3.3	3.1	5.3	3.5	3.9
Interest Coverage Ratio	-	-	7.9	-	-
Total Liabilities-Asset Ratio (%)	23.5	24.8	17.4	28.7	19.2
Operating Income Margin (%)	-8,274.9	14.6	21.4	22.9	57.4
Net Profit Margin (%)	-8,290.7	20.1	21.3	25.2	57.1
Net Profit Rate of Assets (%)	-76.1	17.8	18.6	17.6	32.0
Net Profit Rate of Equity (%)	-99.5	23.7	22.5	24.7	39.6

Source: Huayu's audited financial statements 2013-2016

CECEP Huayu = CECEP Huayu Fund Management Co., Ltd., EBITDA = earnings before interest, taxes, depreciation, and amortization.

F. Financial Sustainability of the FIL Project

59. CECEP Huayu has conducted a financial analysis on the FIL project with necessary revisions after discussions with ADB. Based on the financial analysis, incremental financial impact of the FIL to CECEP, on-lending loan borrower and risk undertaker is estimated by ADB Consultant, and conclude that CECEP's financial standing will be mostly enhanced from the implementation of FIL project, providing that the investments from the Facility to funds and subprojects or from funds to subprojects shall all be priced on a risk-adjusted basis. The pricing formula for fund investment is recommended as: the required interest rate set as the 7-year Euro SWAP rate[16] + 0.5% of ADB margin + 0% of maturity margin (since the loan maturity under current repayment arrangement is less than 13 years) charged by ADB + 1% Euro exchange risk

[16] Since we are assuming the ADB loan proceeds can be revolved for two rounds of fund investment, we take the 7-year Euro SWAP rate as the benchmark rate. The required rate of return for the Facility's investment to the funds will be reset with reference to the market rate when it revolves. By using the fixed SWAP rate, the related Euro interest rate risk is appropriately taken into consideration.

reserve[17] + different investment risk reserves for different investments based on different default risk loss assumptions (See the following tables) shall be used for investment of the Facility to the funds and subprojects.

Table 9: Default Risk Assumption for Different Fund Investments (each round)

Fund	Debt	PPEI	Equity	Revolving rounds
Regional Fund	0%	0%	n.a.	1
Local Fund	8%	8%	n.a.	2
Tech/Industry Fund: Debt	10%	10%	n.a.	2
Tech/Industry Fund: Equity	n.a.	n.a.	20%	2
Direct Inv.	4%	4%	n.a.	2
Recovery rate	60%	40%	20%	

Table 10: Share of LP Contribution and Investment allocation in each Fund

	CECEP	The Facility	Insurance	Bank	Developer	Gov. affiliated	Sum	Inv't allocation
Regional Fund		50%	50%				100%	50%
Local Fund		25%		50%		25%	100%	20%
Tech/Industry Fund: Debt		33%		33%	33%		100%	10%
Tech/Industry Fund: Equity		33%		33%	33%		100%	10%
Direct Inv.	100%						100%	10%
							Sum	100%

Table 11: Calculation of Cost of Capitals

Fund	The Facility	Insurance	Bank	Developer	Gov. affiliated	Weighted COC
Regional Fund	4.00%	5.25%				4.93%
Local Fund	5.00%		5.50%		4.50%	5.47%
Tech/Industry Fund: Debt	5.00%		5.50%	5.00%		5.51%
Tech/Industry Fund: Equity	8.00%		8.00%	5.00%		7.47%
Direct Inv.	4.50%					4.50%

* Weighted COC to fund will be compared with the expected ROI of funds

Table 12: Expected ROI to be Charged by Funds on Subprojects

Fund	Weight by investment type			Required ROI to subprojects			Expected ROI
	Debt	PPEI	Equity	Debt	PPEI	Equity	
Regional Fund	70%	30%	0%	4.40%	7.00%	10.00%	5.18%
Local Fund	80%	20%	0%	6.00%	7.00%	10.00%	6.20%
Tech/Industry Fund: Debt	80%	20%	0%	6.00%	7.00%	10.00%	6.20%
Tech/Industry Fund: Equity	0%	0%	100%	6.00%	7.00%	10.00%	10.00%
Direct Inv.	80%	20%	0%	6.00%	7.00%	10.00%	6.20%

* Assessed by Huayu as possible

Source: CECEP Huayu

[17] So in 15 years of loan term, totally 15% of loan proceeds will be accumulated as risk reserve to hedge the adverse change of Euro exchange rate.

Table 13: Incremental financial impact of the FIL to CECEP

Amount in million CNY	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Cash outflows																
Investment	988.6	1,318.1	988.6													
Interest paid to ADB		10.3	24.0	34.3	34.3	34.3	34.3	34.3	34.3	34.3	34.3	34.3	30.9	27.5	18.9	8.6
Commitment fee		3.5	1.5	-	-	-	-	-	-	-	-	-	-	-	-	-
Tax		2.0	4.6	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	5.9	5.2	3.6	1.6
ADB loan principal repayment													329.5	823.8	988.6	823.8
Foreign exchange risk reserve		9.9	23.1	33.0	33.0	33.0	33.0	33.0	33.0	33.0	33.0	33.0	29.7	26.4	18.1	8.2
Net default loss		3.8	9.0	12.8	12.8	12.8	12.8	12.8	12.8	12.8	12.8	12.8	12.8	12.8	9.0	3.8
From Regional Fund		-														
From Local Fund		0.9	2.2	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	2.2	0.9
From Tech/Industry Fund: Debt		0.6	1.4	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.4	0.6
From Tech/Industry Fund: Equity		2.1	4.9	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	4.9	2.1
From direct investment		0.2	0.5	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.5	0.2
Sum of cash outflows	988.6	1,351.4	1,059.7	99.5	99.5	99.5	99.5	99.5	99.5	99.5	99.5	99.5	421.6	908.6	1,047.2	850.0
Cash inflows																
Borrowing from ADB	988.6	1,318.1	988.6													
Investment return		31.5	73.5	105.1	105.1	105.1	105.1	105.1	105.1	105.1	105.1	105.1	94.6	84.0	57.8	26.3
Investment principal collection													329.5	823.8	988.6	823.8
Sum of cash inflows	988.6	1,349.6	1,062.1	105.1	105.1	105.1	105.1	105.1	105.1	105.1	105.1	105.1	424.1	907.9	1,046.4	850.1
Net Cash Flows	-	-1.8	2.4	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6	2.4	-0.7	-0.8	0.1
Accumulated cashflows	-	-1.8	0.6	6.2	11.8	17.3	22.9	28.4	34.0	39.6	45.1	50.7	53.2	52.5	51.7	51.8

60. From the above projection, it shows that the weighted cost of capital for each fund is lower than the expected rate of return on investment to subprojects, which means each fund can collect more return from subproject investment than it shall pay to fund investors with consideration of all reasonable expenses (including the assumed default risk loss, and 1% management fee paid to CECEP Huayu and 0.35% consulting fee paid to third parties for provision of necessary appraisal services). So the model itself is feasible. Applying this pricing structure to CECEP, it is found that over the 15 years of ADB loan term except in the 2nd year there will be a negative CNY1.8 million cash outflow, the accumulated cash inflows will be steadily increasing until the last three years when the principal of ADB loan is gradually repaid thus the fund size will be declining. Generally, we can expect CECEP to reserve a few millions in the beginning and then cultivate a great amount of net cash inflows for the coming years. At the end of the ADB loan term, CECEP is expected to accumulatively obtain from the project a net cash inflow of CNY51.8 million under quite conservative assumptions.

G. Risk Assessment and Proposed Mitigation Measures

61. Risks in association with the ADB loan project have been identified. The overall findings about risk level of the project is moderate. A summary of risk analysis is shown in Table 14 below.

Table 14: Risk Analysis

Risks	Impact	Likelihood	Risk Assessment	Proposed Mitigation
Inherent Risks				
For CECEP (EA):				
Country Specific Risks– National accounting standards as issued by the Ministry of Finance are equivalent to International Accounting Standards and acceptable to ADB. Audit reports of supreme audit institution are submitted timely in accordance with ADB requirements. ADB experiences in project implementation shows generally high financial management capacity and high	**low**	**less likely**	**low**	

Risks	Impact	Likelihood	Risk Assessment	Proposed Mitigation
rate of timely implementation of projects. Audit reports of supreme audit institution are submitted timely in accordance with ADB requirements.				
Entity Financial Strength - CECEP as the only one central SOE specialized in energy conservation and environmental protection business holds a robust financial standing. Its low debt service coverage ratio will not cause liquidity problem since it has CNY22 billion of cash and cash equivalent, tradable financial assets and available for sales financial assets at the end of 2016, which is six times of the ADB loan size, and has unique capability to issue bonds with AAA rating, has CNY450 billion of unused credit lines (120 times of the ADB loan amount) to borrow from bank, and obtain new capital injection from SASAC for developing new capital expenditure projects. Compared to the ADB loan amount, it has very large asset scales, and holds great amount of cash and tradable financial assets. Its business plan by 2020 also indicate that its financial standing will continually improve.	**low**	**less likely**	**low**	CECEP is required to keep its total liabilities to total assets ratio to be not more than 70% on a consolidated basis. Audited financial statements of both CECEP and CECEP Huayu will be provided to ADB each year for monitoring purpose. It will be covenanted that the total liabilities to total assets ratio of CECEP shall be no more than 70%, which will be monitored each year before the loan closure.
For CECEP Huayu				
Entity Specific Risks–The complexity of the structure to set up the Facility and various Funds may cause problem. However, this risk can be resolved since the Facility has sole LP, likely partners of major Funds have been identified and the preliminary cooperation willingness among partners are strong. Also, the low cost of ADB loan provides plenty of space for deal negotiation. Roles and responsibilities of each partner in the Fund level will be reasonably distributed and clearly specified in the legally binding limited partnership agreements, which are subject to ADB's prior acceptance	**high**	**less likely**	**substantial**	The limited partnership agreements for all Funds shall be developed by Huayu and provided to ADB for acceptance before their signature.
CECEP Huayu has CNY200 million of registered capital, and so far just CNY60 million of committed capital is paid in, There is a large space for it to obtain shareholder's cash capital injection.	**low**	**less likely**	**low**	Letter, acceptable to ADB, from all CECEP Huayu shareholders agreeing to contribute their committed capital on a timetable that will provide sufficient funds to CECEP Huayu to operate the Facility and Funds should be set as condition for loan disbursement.
Project Risks				
Specific Risks for CECEP				

Risks	Impact	Likelihood	Risk Assessment	Proposed Mitigation
Financial sustainability of the project implementation structure– has been modeled with positive cash flows under conservative assumptions. CECEP is the leading and largest enterprise in PRC in the sector of EEER. It has strong technical capacity available for CECEP Huayu to assess the technical risk of subprojects.	**low**	**less likely**	**low**	ADB loan proceeds should be kept in separate accounts from the other Funds of CECEP.
Staffing–CECEP and SPDB are sufficiently staffed for accounting, auditing, and financial management.	**low**	**less likely**	**low**	
Internal audit–CECEP has independent internal audit department which is sufficiently staffed with qualified personnel. Under the group of CECEP there is a total of 500 internal audit professionals. The Facility, Funds, and subproject companies are subject to internal audit of CECEP. The government of the PRC is cracking down on corruption, in particular in central state-owned enterprises. The governance during the project implementation is ensured. Continuous routine internal audits are carried out for CECEP and CECEP Huayu as well as for all new investment project companies. The Audit Department of CECEP has vast experience in project auditing.	**low**	**likely**	**moderate**	The project is subject to CECEP-organized routine internal audit, with necessary adaptation to meet special ADB monitoring and reporting requirement.
Specific Risks for CECEP Huayu				
Financial sustainability of the project implementation structure–has been modeled with positive cash flows under conservative assumptions. CECEP is the leading and largest enterprise in PRC in the sector of EEER. It has strong technical capacity available for CECEP Huayu to assess the technical risk of subprojects. Identification of sufficient subprojects– Total capital of all Funds is CNY8.6 billion and the invested subprojects will have CNY13.8 billion of total investment. CECEP Huayu and its local partner shall have the capability to solicit sufficient number of eligible subprojects for the related Funds to invest. The wide geographic region, a large portion of CECEP internal subprojects, the involvement of various types of local partners who will not only provide funds but also provide potential Subprojects and the recruitment of investment professionals with rich business outreach can reduce this risk.	**high**	**less likely**	**substantial**	ADB loan proceeds should be kept in separate accounts from the other Funds. Risk-adjusted pricing: The Facility shall, and shall cause each Fund to, establish a reasonable target floor rate of return for each investment which has properly considered the interest risk and investment risk. The projected investment return requirement on sample subprojects will be reviewed by ADB in advance. Loan disbursement will be made upon provision of signed subproject investment agreements.

Risks	Impact	Likelihood	Risk Assessment	Proposed Mitigation
Poor investment performance–CECEP Huayu has hired experienced top management members with successful fund management track records since late 2015 and will recruit more implementing team members soon. All together, they are expected to be capable of running the fund business as designed under the FIL. To further motivate their engagement in the investment management, a reasonable compensation incentive policy applicable to the fund management team should be adopted by CECEP Huayu with prior approval from CECEP.	**High**	**less likely**	**substantial**	CECEP Huayu will be held accountable for ensuring the eligibility of invested subprojects in accordance with the PAM. Implementation of the market-based compensation incentive policy by CECEP Huayu for its staff and management will be carried out within one year after the loan effectiveness and will be reviewed by ADB review mission. Periodic evaluation by CECEP (semiannual) on Facility and Funds investment's performance shall be implemented.
Staffing–The accounting department of CECEP Huayu is fully staffed, the top leaders with rich debt and equity investment experience are in place as well, but CECEP Huayu is not sufficiently staffed in its implementation team for undertaking the assigned tasks in the FIL as assessed in April 2017. CECEP Huayu argued that there is no need for a big implementing team at the moment, which will create unnecessary financial burden. CECEP Huayu has developed a new recruitment plan with sufficient staffing (around 20 employees) for the FIL and will implement it in line with the ADB loan project implementation progress.	**low**	**likely**	**moderate**	CECEP Huayu’s suitable implementation of staffing plan should be in compliance with the ADB loan project implementation schedule and will be monitored and reviewed by ADB during review mission.
General Risks for both CECEP and CECEP Huayu				
Accounting policies and financial management system–CECEP, CECEP Huayu, and SPDB practice accrual accounting in accordance with the PRC's GAAP. CECEP and Huayu have all adopted Accounting Standards for Business Enterprises approved by MOF, which is consistent with IAS on a project accounting level.	**low**	**less likely**	**low**	Capacity training on ADB requirements and procedures of disbursement and procurement will be provided to ensure they are understood by all related staff in CECEP, CECEP Huayu, and SPDB in advance.
External Audit–CECEP and its subsidiaries are subject to annual external audits on a rotating basis by CPAs auditing firms designated by SASAC. All these SASAC-designated auditing firms are experienced in auditing large-scale businesses, are familiar with the IAS and can provide proficient	**low**	**less likely**	**low**	The project will be subject to annual external audit and government-organized acceptance audit.

Risks	Impact	Likelihood	Risk Assessment	Proposed Mitigation
auditing services to the ADB loan related entities. The project will also receive government-organized audits after project completion.				
Reporting and Monitoring–The reporting and monitoring of the project will be carried out mainly by CECEP Huayu with guidance by the PAM.	**low**	**less likely**	**low**	The PAM includes guidance on preparing progress reports and annual reports acceptable to ADB.
Funds flow/Disbursement Arrangements–All ADB loan proceeds shall be made to the EA and transferred, after conversion into CNY, to the Facility and Funds and then to subprojects through a chain of escrow accounts in which fund flows can be clearly traced.	**high**	**less likely**	**substantial**	A disbursement manual will be prepared. A disbursement training will be provided to strengthen capacity of all stakeholders.
Project implementation delay risks– numerous onlending arrangements must be formulated and agreed among the entities in combination with ADB inherent risks to engage qualified legal counsels.	**low**	**likely**	**moderate**	ADB will provide support for formulation of key agreement templates.
Information Systems–CECEP Huayu uses computerized accounting software, which is in compliance with the Chinese Accounting Standards. Entrusted Bank SPDB has further sophisticated accounting software that can provide detailed project account transaction recording, loan fund flow tracking, financial book summary and archive index management.	**low**	**less likely**	**low**	CECEP Huayu shall monitor the PAM's requirement on reporting.
Overall Project Risk	**Moderate**	**likely**	**Moderate**	Implementing the mitigation actions mentioned above will reduce the risk to low.
Overall Risk	**Moderate**	**Likely**		

ADB = Asian Development Bank, CECEP = China Energy Conservation and Environmental Protection Group, CECEP Huayu = CECEP Huayu Fund Management Co., Ltd, CPAs = Certified Public Accountants, EA = executing agency, EEER = energy efficiency and emission-reduction, FIL = financial intermediation loan, GAAP = generally accepted accounting principles, IAS = international accounting standard, LP = limited partner, MOF = Ministry of Finance, PAM = project administration manual, PRC = People's Republic of China, SASAC = State-owned Assets Supervision and Administration Commission of the State Council, SOE = state-owned enterprise, SPDB = Shanghai Pudong Development Bank.
Source: Asian Development Bank.

H. Proposed Action Plan and Rating

62. The overall risk assessment for this FIL is considered to be moderate. The project risks can be mitigated to low level if the recommended mitigation measures below are adopted. ADB is working with the right institutions which take the right measures with the right financial instruments to address the development problem.

63. The following actions are proposed to be taken by the related parties:

(i) The framework cooperation agreement between CECEP and SPDB shall be reviewed by ADB before it is signed;

(ii) Templates of investment partnership agreement for the Facility and Funds are to be developed by CECEP Huayu with support from ADB;

(iii) Equity investment strategy, exit strategy, and the selection process shall be reviewed and accepted by ADB;
(iv) CECEP Huayu needs to get the market-based compensation incentive policy approved by CECEP and implement it within one year after the loan effectiveness;
(v) CECEP Huayu needs to get the new recruitment plan approved by CECEP and execute it in line with the ADB loan project progress;
(vi) CECEP Huayu's three shareholders shall provide a letter of commitment to provide necessary working capital to the company for operations under the ADB loan project;
(vii) CECEP needs to open the project accounts in SPDB to directly receive the ADB loan proceeds, which shall obtain the relevant foreign exchange conversion authorization;
(viii) CECEP Huayu needs to efficiently identify more potential subprojects for the fund investment; and
(ix) CECEP will search appropriate investment partners in the PRC for timely establishment of the designated funds.

I. Assessment of SPDB—The Possible Trustee Bank

64. SPDB will act as the main trustee bank for maintaining the project accounts of CECEP of the Facility and one of the co-investment partner for certain funds. As a result, of this due diligence, it is concluded that SPDB is competent to fulfill the assigned tasks.

65. SPDB, established in October 1992 with finance permission No. B0015H1310000001, is a national joint stock commercial bank headquartered at 12 Zhongshan East One Road, Shanghai. It is ranked by the UK's "the Banker" magazine in June 2016 the 29th largest commercial bank worldwide[18] and is ranked the No. 1 in the world for its exceptional cost-to-income ratio. SPDB went for initial public offering in 1992 in Shanghai Stock Exchange with registered common shares of CNY18.65 billion, and issued preferred shares in 2014 and 2015 in total amount of CNY29.92 billion to significantly enhance its capital adequacy position. Main business domains of SPDB include: savings; short, middle and long-term loans; settlement; notes discounting; issuance of financial bond; agent of underwriting; cashing; and selling governmental bonds; buy and sales of governmental bonds; borrowing and lending with banks and financial institutions (FIs); provision of L/C and guarantee, etc. SPDB is defined by China Banking and Regulatory Commission (CBRC) as tier 2 bank and is required to comply with Basel III consistent standards by end of 2017. As illustrated in Figure 15 below, SPDB operated in full compliance with the regulation. In 2016, its liquidity coverage ratio is further improved from 78% in 2015 to 84%, higher than the annually scaled up threshold percentage of 80% of regulatory requirement.[19]

[18] http://www.thebanker.com/Top-1000-World-Banks/Top-1000-World-Banks-2016
[19] Basel Capital Accord III requires 100% of LCR, but the latest time to reach that threshold is 2018.

Figure 15: Monitoring Metrics of SPDB

Item(%)	China Ref.	Basel III	2016	2015	2014	2013	2012
CAR	⩾9.7	⩾10.5	11.65	12.33	11.25	10.85	n.a.
Tier 1 CAR	⩾7.7	⩾7.5	9.3	9.38	9.05	8.45	n.a.
Tier 1 core CAR	⩾6.7	⩾6	8.53	8.42	8.52	8.45	n.a.
NPL ratio	⩽2		1.9	1.56	1.06	0.74	0.58
Current Ratio	⩾25	n.a.	37.05	32.6	32.93	31.34	37.54
LCR	⩾80	⩾100	84.3	78.31	n.a.	n.a.	n.a.
Loan to deposit ratio	⩽75		72.98	67.61	71.99	73.01	72.21
Single client concentration	⩽10		1.58	1.43	1.54	1.92	2.17
Top 10 client concentration	⩽50		10.93	10.87	11.69	13.01	13.97
NPL Provision coverage	⩾150	⩾150	169.13	211.4	249.09	319.65	399.85
Provisions to loan ratio	⩾2.5	⩾2.5	3.19	2.93	2.58	2.27	2.92
Leverage Ratio	⩾4	⩾3	5.47	5.31	5.19		
Cost/Revenue ratio	⩽45		23.16%	21.86	23.12	25.83	28.71

Source: CBRC website, SPDB FMAQ and SPDB annual reports

CAR = capital adequacy ratio, LCR = liquidity coverage ratio, NPL = non-performing loan.

Note: 2015 required minimum LCR is 70%, and 2016 required minimum of LCR is scaled up to 80%.

66. Among the PRC commercial banks, SPDB is active in Energy Efficiency and Emission Reduction (EEER) project financing. It has cooperated with many IFIs such as World Bank, IFC, and ADB in this field and built up a specialized team in the headquarter for EEER project assessment and launched innovative loan products suitable for small and medium sized enterprises (SMEs) and energy service companies.

67. SPDB also receives credit rating from three of the major international rating agencies. A review of SPDB's rating status indicates that it holds stable and above investment-grade long-term foreign exchange credit, although slightly downgraded from last year's rating. The baseline credit assessment of SPDB rated by three major international rating agencies is summarized as follows:

Rating Agency	Long-term	Short-term	Outlook	Date of update
Standard & Poor	BBB	A-2	Stable	Jan-16
Moody's	Baa2	P-2	Stable	Oct-16
Fitch	BBB-		Stable	Aug-16

I. Shareholders and Organization

68. By the end of December 2016, SPDB had total asset of CNY5,857 billion ($851 billion) with net equity of CNY372 billion ($54 billion). The top ten shareholders together possess 73.42% of its shares, and Shanghai International Group (SIG), a local SOE controlled by Shanghai State Asset Supervision and Administration Commission, is SPDB's largest shareholder, collectively holding 26.55% of SPDB's common shares through its subsidiaries Shanghai Shangguotou, Shanghai Guoxin and SIG Asset Management Co., Funde Sino-Life collectively holds 20.68% of SPDB's share through the three insurance plans. Shareholding structure of SPDB is relatively scattered as evidenced by the fact that no one party serves as its controlling shareholder and the 10th largest shareholder just holds only 1.42% of its share. Details of top 10 shareholders are illustrated below in Table 16.

Table 16 Top Ten Shareholders of SPDB

No.	Name of shareholder	Nature of shareholder	2016 Proportion
1	Shanghai International Group Co.	Shanghai SASAC controled SOE	19.53%
2	China Mobile Group Guangdong Co.	Subsidiary of Central SOE	18.98%
3	Funde Sino-life Traditional insurance	Private Legal Person	9.89%
4	Funde Sino-Life - Capital Fund	Private Legal Person	6.27%
5	Shanghai Shangguotou Asset Management	State-owned legal person	4.97%
6	Funde Sino-Life Universal Insuarance	Private Legal Person	4.52%
7	Wutongshu Investment Platform Co.	SAFE wholely owned SOE	3.15%
8	China Securities Finance Corp. Ltd.	SOE	2.77%
9	Shanghai Guoxin Inv't & Development Co.	Grand son company of Shanghai Int'l Group Co.	1.92%
10	Central Huijin Asset Management Co.	SOE by MOF	1.42%
	SUM		73.42%

Source: SPDB annual reports.

69. SPDB has been committed to business integrity and international standards of modern corporate governance, and adopted a modern corporate governance framework, which balances authorities and responsibilities among the Shareholders' General Meeting, the Board of Directors, the Board of Supervisors, and Senior Management as to ensure proper segregation of duties and powers among all stakeholders.

70. Review of the corporate governance structure of SPDB has revealed that it, fundamentally as a commercial bank, has adequate managerial autonomy and commercially oriented governance to compete in the competitive banking market of the PRC.

II. Capital Adequacy

71. Capital adequacy is the fundamental requirement for banking business. Following CBRC rules, SDPB adjusted its asset values at risk and controlled different tiers of capital adequacy ratios after 2013 in a way compliant with Basel III Accord. From 2013 to 2016, its capital adequacy ratio maintained between 12.33% and 10.85%, and its tier 1 core capital adequacy ratio ranged from 8.45% to 8.53%, all complying with the new regulation requirement even in transition period before the new rule becomes mandatory. Another main metric for capital adequacy measurement is leverage ratio as per Basel III, which set a minimum of 3%. Leverage ratio of SPDB's tier 1 capital in 2016 is 5.47%, significantly better than the PRC new regulation required minimum of 4%.

III. Asset Quality

72. SPDB adopts CBRC guidelines for loan classification[20] and management of asset quality. Loans are classified into five levels according to the level of risk: normal, special attention, substandard, doubtful, and loss. The last three levels of loans are regarded as non-performing loan (NPL) in the PRC. Its NPL ratio is 0.58%, 0.74%, 1.06%,1.56%, and 1.9% for 2012–2016 respectively, all controlled under the regulated ceiling rate of 2% in stringent periods when the economic growth began to decrease. The increasing NPL rate is mainly because a significant portion of SPDB's loan portfolio is made to SMEs. Within the 1.9% of NPL as of the end of 2016,

[20] http://www.cbrc.gov.cn/govView_A54880D6AD5D4BB6928781203A91C93F.html Loan Risk Classification Guideline, issued by CBRC in July 2007.

0.75% are substandard loans, 0.57% are doubtful loans, and 0.57% are actual loss-making loans. Sufficient reserves against the possible loss of the NPL have been appropriately set aside. The NPL provision coverage ratio always is maintained more than the regulated floor of 150%. It adheres to the prudent principle of fully considering the impact of changes on the external environment, including macroeconomic and government control policies on credit asset quality, and of making full provisions for impairment losses on loans and advances to customers.

IV. Management and Staffing

73. SPDB runs banking business strictly in compliance with regulatory requirements. It constantly meets mandatory requirements of the People's Bank of China (PBOC) and CBRC, and has no record of ever breaching the law and or any regulation in the past three years. SPDB has regular training programs to make all staff—from the top management to employees—understand the importance of complying with the law.

74. SPDB's operation is market oriented and its management is obliged to making profits for its shareholders. SPDB's management advantage lies more in cost control. On average, the cost to revenue ratio is maintained low at only 24.54%, significantly lower than the regulatory ceiling of 45%, while it charges a reasonable interest spread to keep cost advantage to attract clients under competitive environment. The lending business growth of SPDB is more driven by individual borrowers, who are interest rate sensitive. Thus, through controlling both the cost and price, SPDB accomplished the dual goal of rapid growth of lending business and net profit. It is also trying to increase non-interest income, which mainly derives from net fee and commission income. The Bank frequently reviews operational performance in terms of key performance indicators. The outcomes from last four years from 2012 to 2016 are positive. As shown in Table 17, the net profit margin is kept above 33%, asset grows fast, return on equity (ROE), return on assets (ROA), and cost/revenue ratio are all maintained in comfortable range, and the market position of SPDB in terms of both lending business and deposit business is improved, although in recent few years the growth of PRC's economy has declined. This leads to conclusion that the SPDB management is capable and competitive.

Table 17: SPDB Management Performance Indicators

	2012	2013	2014	2015	2016	Average
Total asset growth	17.2%	17.0%	14.0%	20.2%	16.1%	16.9%
Net asset growth	19.2%	15.1%	27.3%	21.1%	16.7%	19.9%
Net profit margin	41.4%	41.2%	38.4%	34.8%	33.4%	37.8%
ROA	1.1%	1.1%	1.1%	1.0%	0.9%	1.1%
ROE	19.1%	19.9%	18.0%	16.0%	14.4%	17.5%
Growth of loan and advances	15.9%	14.4%	14.4%	10.0%	23.2%	15.6%
Growth of operating revenues	22.1%	20.6%	23.2%	19.0%	9.7%	18.9%
Growth of operating costs	19.8%	20.7%	32.1%	31.0%	13.2%	23.4%
Growth of net profit	25.4%	20.1%	15.0%	7.7%	5.3%	14.7%
Net Interest spread	2.39%	2.46%	2.58%	2.45%	1.89%	2.35%
Cost/Revenue ratio	28.71%	25.83%	23.12%	21.86%	23.16%	24.54%

Source: FMAQ and financial statements of SPDB

ROA = return on assets, ROE = return on equity.

75. SPDB has formulated a set of standard procedures and prepared an operations manual for the preliminary, concurrent, and subsequent management of commercial loans, including a strict system for credit appraisal. This system has been demonstrated as effective and the NPL rate of SPDB is constantly low, although starting a rising momentum. Even in 2016, with the

further worsened economy growth, the NPL rate of SPDB rose to 1.9%, but still in a tolerable range.

76. SPDB has designated its Beijing Yongding Road Subbranch as the operation window for the ADB loan project. The related private equity fund department and technical department in Headquarters will provide necessary guidance and technical support on fund co-investment and entrusted loan business. The Beijing Yongding Road Subbranch will form a project steering group, chaired by the subbranch president with members from vice president in charge of corporate banking business, green credit business specialist and private equity fund investment specialist from the headquarters, senior manager of green credit department in the branch, senior manager of SME finance center, senior manager of fund monitoring and wealth management department, and senior manager of marketing department. The steering group will provide implementation coordination and guidance to the project implementation team and make the final approval of co-investment on certain funds under the Facility. Each subproject will be managed by a project implementation team consisting of subbranch client managers, accountant, wealth management product manager, credit appraisal specialist, green finance product manager, foreign currency and transfer manager, trustee and monitoring system technician, and risk manager etc. Nine full time employees with professional qualifications have been specifically assigned to handle the entrusted loan operation as well as the cofinancing operation. This arrangement will ensure the smooth operation of entrusted loans and make its cofinancing decision easier.

V. Earnings Quality

77. As shown in Table 17 above, SPDB's operating revenues have maintained a remarkable 19% annual growth rate on average in the last 5 years from 2012–2016. This is especially outstanding in downward background of economic growth. The loans to deposits ratio is maintained between 67% and 73%, all lower than the regulated ceiling of 75%, implying a complied usage of deposits at relatively high efficiency. The NPL provisions and loan provisions are allocated in proportions far higher than the legal required minimum percentages. Therefore, there is no doubt that SPDB's high earning capability was built on the basis of prudent operation and legal compliance.

78. The average interest spread earned by SPDB is quite stable: 2.46% in 2013, 2.58% in 2014, 2.45% in 2015, and 1.89% in 2016 respectively. The cost to revenue ratio is well controlled: 25.83% in 2013, 23.12% in 2014, 21.86 in 2015, and 23.16% in 2016 with about 20% lower than the regulated ceiling of 45%. These factors directly lead to a relatively sustainable high earning capability of SPDB. Its financial statements from 2011 to 2016 are illustrated in Figure 9 below.

Figure 9: Financial Statements of SPDB (CNY millions)

Balance Sheet	2011	2012	2013	2014	2015	2016
Assets						
1 Cash on hand and due from central bank	366,957	427,563	476,342	506,067	481,157	517,230
2 Due from banks and FI	267,876	311,293	233,302	142,287	111,388	234,223
3 Lendings to banks and FI	111,415	85,420	26,828	21,969	137,806	118,892
4 Noble metal	683	6,673	3,348	11,707	28,724	9,548
5 Financial assets held for trading	5,867	18,441	28,627	32,841	63,746	177,203
6 Derivative financial assets	549	907	1,946	2,612	10,610	16,233
7 Reverse repurchase agreement	281,510	267,089	295,953	196,188	110,218	3,001
8 Interest receivable	11,071	13,546	14,709	17,328	20,437	22,911
9 Loans and advances to customers	1,302,324	1,508,806	1,725,745	1,974,614	2,171,413	2,674,557
10 Available-for-sale financial assets	147,929	150,741	160,593	222,208	254,846	620,463
11 Held to maturity investment	158,535	159,286	146,253	121,698	239,703	326,950
12 Investment classified as receivable	8,760	159,734	515,234	877,171	1,325,032	1,010,472
13 Long-term equity investment	1,857	2,464	2,268	1,475	1,599	949
14 Fixed assets	8,137	8,781	8,874	10,542	19,062	21,605
15 Construction in-process	457	1,320	1,861	3,387		
16 Intangible asset & goodwill	457	517	758	858	879	10,377
17 Long-term amortible expense	1,206	1,379	1,565	1,635	1,657	1,610
18 Deferred income tax asset	4,270	5,636	9,382	10,692	14,427	21,838
19 Other assets	4,834	16,111	26,537	40,645	51,648	69,201
Total assets	**2,684,694**	**3,145,707**	**3,680,125**	**4,195,924**	**5,044,352**	**5,857,263**
Liabilities						
1 Borrowing from central bank	50	115	601	21,006	23,645	147,622
2 Due to banks and other FI	440,908	546,564	721,119	761,531	1,042,948	1,341,963
3 Borrowing from banks	66,970	32,466	61,981	63,098	99,589	97,132
4 Trading financial liability				312	210	29,526
5 Derivative finanical liability	1,515	1,944	3,853	3,303	7,319	13,091
6 Repurchase agreements	86,020	84,540	79,557	68,240	119,205	93,200
7 Deposits from customers	1,851,056	2,134,365	2,419,696	2,724,004	2,954,149	3,002,015
8 Salary Payable	6,854	7,214	6,273	5,696	5,684	6,428
9 Taxes payable	6,510	8,295	10,496	12,066	14,776	17,620
10 Interest payable	20,279	24,679	32,841	38,750	36,235	34,082
11 Dividend payable	12	12	12	12	12	13
12 Bonds payable	32,600	68,600	63,368	146,667	399,906	664,683
13 Deferred income tax liability					7	717
14 Other liabilities	22,378	57,254	73,101	87,954	22,067	36,237
Total Liabilities	2,535,152	2,966,048	3,472,898	3,932,639	4,725,752	5,484,329
Shareholders' Equity						
1 Equity capital	18,653	18,653	18,653	18,653	18,653	21,618
2 Preferred shares				14,960	29,920	29,920
3 Capital reserve	59,543	59,560	55,775	60,639	60,639	74,678
4 Other comprehensive income				1,255	5,713	233
5 Surplus reserve	21,806	27,248	37,460	49,647	63,651	78,689
6 Provisions for general risks	18,700	23,050	29,450	36,858	45,924	65,493
7 Retained earnings	30,188	48,986	63,037	78,157	90,670	97,316
8 Difference due to foreign exchange						
Equity to the bank's shareholders	148,890	177,497	204,375	260,169	315,170	367,947
Add: Minority	652	2,162	2,852	3,116	3,430	4,987
Total Equity	149,542	179,659	207,227	263,285	318,600	372,934
Total shareholder equity and liabilities	**2,684,694**	**3,145,707**	**3,680,125**	**4,195,924**	**5,044,352**	**5,857,263**

Income Statement	2011	2012	2013	2014	2015	2016
Net interest revenues	61,441	73,362	85,177	98,183	113,009	108,120
Net service fee revenues	6,717	8,746	13,904	21,346	27,798	40,692
Other revenues	-240	844	934	3,652	5,743	11,980
Operating income	67,918	82,952	100,015	123,181	146,550	160,792
Operating expense	32,161	38,533	46,492	61,430	80,483	91,132
Operating profit	35,757	44,419	53,523	61,751	66,067	69,660
Plus: non-operating income	157	434	444	443	983	459
Less: non-operating expense	75	99	118	164	173	144
Profit before tax	35,839	44,754	53,849	62,030	66,877	69,975
Less: income tax	8,484	10,443	12,649	14,670	15,880	16,297
Net profit	**27,355**	**34,311**	**41,200**	**47,360**	**50,997**	**53,678**
Cashflow Statement	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Net cashflow from operating activities	189,778	92,578	308,406	191,158	358,820	-191,993
Net cashflow from investment activities	-56,479	-142,811	-315,040	-342,455	-531,220	-64,015
Net cashflow from financing activities	13,094	30,009	-18,376	72,897	244,782	234,342
Influence on cash due to exchange rate change	-1,361	-230	-1,048	1,068	3,521	4,390
Cash increase/(decrease) for the year	**145,032**	**-20,454**	**-26,058**	**-77,332**	**75,903**	**-17,276**
Plus: opening balance of cash & equivalent	167,596	312,628	292,174	266,116	188,784	264,687
Ending balance of cash and cash equivalents	312,628	292,174	266,116	188,784	264,687	247,411

Source: SPDB's annual report 2011-2016

FI = financial institutions.

VI. Liquidity

79. The overall liquidity risk of SPDB is assessed as moderate and stable. The loans to deposits ratio of SPDB is 72.21%, 73.01%, 71.99%, 67.61%, and 72.98% in 2012–2016 respectively. This lower than 75% regulation ceiling ratio indicates that SPDB has reserved sufficient portion of deposits to handle liquidity issues as regarded by regulators.

80. The liquidity coverage ratio, a key liquidity metric under Basel III, of SPDB is 84.3% in 2016, which is below the required 100% floor rate of Basel III. However, this metric is satisfactory with the progress target of 80% as set out by CBRC for 2016 and SPDB has another 2 years to comply with the Basel III requirement by 2018 deadline.

81. SPDB has the experience of issuing preferred stock to enhance its core capital: it obtained approval from China Securities Regulatory Commission to issue 300 million preferred shares in 24 November 2014 and raised CNY30 billion of capital by March 2015 in two lots. In extreme cases, SPDB can apply the same method for additional capital injection, while not diluting the interest of common shareholders.

82. SPDB has formulated CBRC-accepted procedures for conducting liquidity pressure test and tackling the liquidity emergency events. Emergency measures that could be taken by SPDB management include: (i) borrowing from FIs in the monetary market and sales of repurchase agreements; (ii) obtaining FI's deposit; (iii) issuance of deposit certificate and sales of notes repo; (iv) expand the long position of foreign exchange; (v) sales of current assets; (vi) currency swap; and (vii) applying to PBOC for borrowings, etc.

VII. Sensitivity

83. Most of SPDB's loans are secured loans. The credit loans only account for 27% of all outstanding loans as of the end of 2016.

Table 18: Loan Classification

	In amount			In percentage		
Amount in CNY million	**2014**	**2015**	**2016**	**2014**	**2015**	**2016**
Credit loan	355,942	470,744	744,151	17.5%	21.0%	26.9%
Guaranteed loan	602,818	631,413	682,061	29.7%	28.1%	24.7%
Mortgage loan	872,609	977,172	1,157,707	43.0%	43.5%	41.9%
Pledged loan	197,011	166,189	178,887	9.7%	7.4%	6.5%
SUM	2,028,380	2,245,518	2,762,806	100%	100%	100%

84. SPDB's risk exposures to both interest rate and foreign exchange rate are limited. By end of 2016, its estimated balance of interest rate exposure requiring the usage of ordinary risk capital as reserve is only CNY1,170 million, and the estimated foreign exchange risk exposure balance requiring the usage of ordinary risk capital as reserve is also small: CNY1,320 million. The scale of these risk exposures is minimal in comparison to SPDB's asset and revenue scales.

85. SPDB has rich experience in US dollar/Euro interest rate transactions and foreign exchange transactions. Through these transactions, it builds up a solid and broad customer base and is in a good position to sense the moves of LIBOR dollar/Euro interest rate and USD/Euro exchange rate, resulting in its enhanced capability of providing forecasts of LIBOR USD/Euro interest rate change and USD/Euro exchange rate change to CECEP and CECEP Huayu as early warnings and provide related financial products to CECEP on hedging the related risks. For foreign exchange risk, SPDB can provide forward agreement up to 2 years, which can be used by CECEP to partially mitigate the impact of sharp adverse foreign exchange rate change. SPDB has specifically designated a foreign exchange and transfer manager in the project implementation team to provide support in this regard.

86. **SPDB's Financial Management System.** SPDB applies accrual accounting in compliance with the PRC's ASBEs. The ASBEs accounting standards are consistent with International IAS in most aspects applicable to banks as well. In addition, banks shall make their financial management in compliance with the Financial Rules for Financial Institutions, promulgated by MOF in December 2007. SPDB adopted a computerized ERP software for the financial and accounting management provided by SAP, which is deemed in compliance with all related legal requirements. Its Beijing Branch has an internal audit resident office consisting of 11 auditors, who are supervised by the audit department in headquarters. All of these auditors hold master or above degree and have 15 years of experience on average. They conduct audit task as instructed by the audit department and will report the result to headquarters directly. Beijing Yongding Road Subbranch is subject to the internal audit of the branch's audit resident office. Each year, SPDB's financial department will organize an external audit for its financial statements. As of 2017, Pricewaterhouse CPAs is hired as SPDB's external auditor and provided unqualified opinion for its 2016 statements.

VIII. Forecast

87. As per SPDB's 2015 annual report, by end of 2016, total assets of the bank will reach CNY5.38 trillion, a 7.5% rise compared with that number in 2015. The outstanding loans will reach CNY2.48 trillion, 11% increase from 2015, the net profit margin will increase by 3%, a sharp drop from 7.7% of growth rate in 2015, indicating that the management has envisaged a harder competition in 2016. The NPL rate shall be maintained around 2%, positioned as good performance level in banking business. The actual outcome of 2016 performance suggests that the pre-set operation targets have been well satisfied.

88. As per SPDB's 2016 annual report, by end of 2016, total assets of the bank will reach CNY6.15 trillion, a 6.5% rise compared with that number in 2016. The outstanding loans will reach CNY3.15 trillion, 15% increase from 2016, the net profit will keep positive growth compared with that in 2016, indicating that the management has envisaged a continued hard competition in 2017. The NPL rate shall be maintained around 2%, positioned with NPL provision in line with regulation requirement.

Table 19: Comparison of operation targets with the actual performance in 2016 and SPDB's operation targets in 2017

	2016				2017	
Amount in billion CNY	Target	Growth	Outcome	Meet?	Target	Growth
Total assets	5,380	7.50%	5,857	Yes	6,150	6.50%
Outstanding loan	2,480	11.00%	2,675	Yes	3,150	15.00%
Net profit growth	3.0%		5.30%	Yes	Positive growth	
NPL rate	2.0%		1.90%	Yes	2.0%	
NPL Provision	above 150%		169.0%	Yes	above 150%	

89. To conclude, SPDB is operating well in compliance with the PRC banking regulation and it is expected to sustainably run the banking business in Beijing for the entire ADB loan term of 15 years. It is eligible for the entrusted loan service and is capable of providing necessary co-investment to suitable funds in case of needing the bank's capital.

Relevant Regulatory Framework

1. The project involves the collaboration of a holding group of non-bank financial institution (NBFI) and a commercial bank as trustee bank to enhance green financing in the Beijing–Tianjin–Hebei (BTH) Region. This section describes the regulatory environment under which the holding company, relevant NBFIs, and commercial banks are operating, and draws conclusions in terms of risks for the implementation of this project. Since the key financial instruments to be used in the proposed project are entrusted loans and financial guarantees, this section specifically highlights relevant regulations for these financial instruments.

2. **Regulation of CECEP.** China Energy Conservation and Environmental Protection Group (CECEP) is mainly supervised and evaluated by State-owned Assets Supervision and Administration Commission (SASAC). Some of its subsidiaries, including CECEP Huayu Fund Management Co. (CECEP Huayu) are partially supervised by laws and related government agencies for the main business they are engaged in. The government issued a number of regulations in an effort to make NFI's activities more transparent, including

- (i) Notice on Some Issues of Strengthening the Regulation of Shadow Banks (Document No. 107) issued by the State Council in January 2013.
- (ii) Regulation on the Establishment and Supervision of NBFIs issued by CBRC in October 2012.[1] This regulation applies to five types of NBFIs, notably trust companies, finance companies under an enterprise conglomerate, financial leasing companies, automobile finance companies, and currency brokerage firms.
- (iii) Interim Management Methods on Financial Guarantee Companies were jointly issued by seven ministries, notably the CBRC, the National Development and Reform Commission, the Ministry of Industries and Information Technology, the Ministry of Finance, the Ministry of Commerce, the People's Bank of China (PBOC) and the State Administration for Industry and Commerce.[2]

3. **Regulation of Fund Management Companies Engaged in Businesses in relation to the Asian Development Bank Loan project.** The Facility and related investment funds under the Asian Development Bank (ADB) loan project will not invest on financial securities and the funds' capitals will not been raised from public. As a result, the regulatory framework, especially legal restrictions and forbidden activities, are at minimum level compared to security-type private funds or public funds. The following laws and regulations are deemed relevant to these funds:

- (i) Partnership Enterprise Law, enacted in 1997 and revised in 2006 by Standing Committee of National People's Congress (NPC), which sets up the legal framework for limited liability partnership enterprises. Particularly, it requires that the limited liability partnership (LLP) enterprise businesses shall be managed by general partner(s) but not limited partner(s), and limited partner is obliged to contribute capitals in full amount and in time as per the related partnership agreement;
- (ii) Interim Methods of Supervising and Administrating Private Investment Funds, which was enacted by China Securities Regulatory Commission (CSRC) in 2014. All funds under the ADB loan project are classified as private investment funds since the fund capitals are raised from non-public channels and thus are directly regulated by the Methods. Main provisions of this regulation include:
  - a. There is no administrative approval requirement for establishment of private investment funds but the ex-post (after the fund's establishment)

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[1] Details can be referred to: http://www.gov.cn/fwxx/bw/zhgyhyjdglwyh/content_2251640.htm.
[2] http://www.gov.cn/gzdt/2010-03/11/content_1552860.htm.

supervision will be enhanced and illegal fund-raising activities will be punished;

b. Asset Management Association of China (AMAC) is designated to carry out sectoral self-regulation activities for private investment funds;

c. Registry of fund management company: the management company of private investment fund is required to register with AMAC by providing the following basic information: business license, charter or partnership agreement, list of major shareholders or partners, and top management team, etc.;

d. Filing of fund information: after the fund capital raising is completed, the fund management company shall proceed the filing procedure for the fund and submit the following basic information to AMAC: main investment direction, fund category, fund contract, charter or partnership agreement, fund raising prospectus, copy of business license, fund management agreement, and agreement with trusted bank, etc.;

e. Private investment funds can raise capitals from qualified investors only. The Methods provide definition of qualified investors, which can be easily met by the potential partners under the ADB loan project, and investment plan (asset management plan is a kind of investment plan) that has been filed in AMAC is regarded automatically as qualified investors (so banks, and insurance companies can put in capitals through asset management plan);

f. When raising capitals from investors, fund managers shall carry out assessment of investor's risk identification capacity through questionnaires and the investors shall provide written commitment that they are in line with the qualified investor conditions;

g. The private investment fund contract (in name of fund contract, charter or partnership agreement) shall comply with the Clause 93 and 94 of Law of Security Investment Fund, which provide that:

  (i) It is allowed by law that some investor who partially holds the fund's shares can be entrusted to manage the fund, and meanwhile undertake the unlimited joint liabilities when the fund assets is insufficient to serve its debt;

  (ii) The fund contract shall specify the name, address of unlimited and limited fund shareholders;

  (iii) The procedure of removal and change of unlimited fund shareholder; and

  (iv) Conversion procedure between the unlimited fund shareholder and other fund shareholders, etc.

h. If a fund management company manages several funds in different categories. It shall establish a mechanism to avoid inappropriate tunneling and conflict of interest;

i. Forbidden activities: the following activities are forbidden for management company, trustee bank, fund sales institute and other service institutes of the private funds:

  (i) Mix its own assets or other person's property with the fund assets and make investment using the mixed assets;

  (ii) Unfairly treat the assets of different funds;

  (iii) Use the fund assets or the management post to benefit oneself or persons other than the investors, or to tunnel interest for other institutes;

(iv) Occupy, or embezzle fund assets for other purposes;
(v) Disclose non-public information obtained due to the job, and utilize that information to conduct or explicitly or implicitly other persons to conduct relevant transactions;
(vi) Conduct investment activities that harm fund assets and the interest of investors;
(vii) Neglect of duties or performing the duty not in accordance with the relevant requirements;
(viii) Conduct insider transactions, manipulate transaction price or carry out other improper activities; and
(ix) Fund management company and trustee bank should be held accountable for honestly disclosing to investors the fund investments, assets and liabilities, investment return distribution, expenses borne by the fund, performance compensation to the fund manager, possible conflict of interest and other significant information that could affect investor's legal rights.

j. Fund management company shall be responsible for providing real, accurate and complete information about the fund manager and other investment professionals, investment operation status and utilization of leverage to AMAC in a timely manner;
k. Fund management company should provide audited annual financial statements and investment operation status of funds under its management to AMAC within 4 months after the end of each accounting year (this is in line with ADB requirement);
l. AMAC is authorized to formulate sectoral self-regulation principles, and monitor and inspect the behaviors of investment professionals. If an investment professional is found in violation of laws, administrative regulations, this Methods, and AMAC's self-regulation principles, AMAC can take disciplinary management measures in accordance with the degree of violation and disclose the violation information publicly through this website. If investment professional breaches the law and regulation, AMAC shall also report it to CSRC.

(iii) On the basis of Interim Methods of Supervising and Administrating Private Investment Funds, AMAC further formulated Methods (trial) for Fund Management Company Registry and Fund Information Filing in 2014 to provide detailed procedures:

a. For fund management company registry: the management company of private funds should proceed registry procedure with AMAC and apply to become a member of AMAC by providing accurately the following basic information on the company: its top management team members and other key professionals, its shareholders or partners, and funds under its management. AMAC can adopt either of the following means to verify the submitted information of fund management company: interview with its top management, field inspection, consultation with CSRC or relevant professional associations, etc., if the information provided by the fund management company is found complete, AMAC will register the fund management company within 20 working days from receiving complete information by disclosing its basic information to public on AMAC website;
b. For fund information filing, within 20 working days after a fund completes its capital raising, the related fund management company shall file the fund's basic information to AMAC for records, which include: main

investment direction, fund category classified as per its investment direction, fund name, capital size, investors, fund contract (fund chapter or partnership agreement), etc., within 20 working days after the fund information passes completeness check, AMAC will post the fund's basic information including fund name, time of establishment, time of filing, main investment fields, fund management company, and fund trustee bank, etc., on its website to close the filing procedure. Funds that pass the filing procedure are authorized to open securities related transaction accounts.

c. Qualification requirement: The Trial Methods also specify the qualification requirement for investment professionals. It requires that investment specialists engaged in operation of private investment funds should have the professional qualification. A specialist that meets one of the following conditions is regarded as qualified for private fund business:

(i) Has passed the private fund professional exams organized by AMAC;

(ii) Has been engaged in investment management related business in recent three years, or

(iii) Meets other conditions recognized by AMAC.

The top management members of fund management company, which include: the board chairman, general manager, vice general managers, executive partners, and compliance and risk control officer, are further required to conduct their duties honestly, shall not have significant integrity records in recent 3 years, and shall not be punished by CSRC for non-market entry;

d. As part of the self-regulation management, AMAC will set up several dedicated committees responsible for differential self-regulation management for funds in different categories. It can carry out non-field and field inspections targeting fund management company and/or its staff, require fund management company and its staff to provide necessary information and materials. Fund management company and its staff should cooperate with AMAC for the inspection. AMAC will also build up archives for fund management companies and their staff and record the follow-up credibility information. AMAC is also authorized to deal with complaints against fund management companies or their staff by investigating and verifying the complaints and disposing accordingly as per the law.

(iv) AMAC promulgated in 2016 the Circular of AMAC (CAMAC) on Further Standardizing Various Issues Related to Registry of Private Fund Management Companies, which cancels the issuance of registry certificate for private fund management companies. Instead, the fund management company's registry status will be dynamically managed and published in CAMAC. It also requires fund management companies to timely file fund information under their management. If a newly established fund management company does not file its first fund product within 6 months after its registry, AMAC will write off its registry status. It reiterates the obligations of fund management companies to update the related information on a timely basis. If a fund management company does not accomplish its periodic update (quarterly and annually) obligations and its timely update obligation for significant matters accumulatively for 2 times, AMAC will list it into the blacklist as abnormal institutes and disclose it to public through AMAC website. Once listed as abnormal institutes, the fund management company can restore its normal status only in 6 months after it has fully adopted correction measures. The circular emphasizes the requirement on fund management companies to provide audited financial statements. Any fund management companies that do not provide audited financial statements of funds under their management in time as per the regulation will be blacklisted as abnormal institutes. Similarly, once listed as abnormal institutes for not providing audited financial statements, the fund management company can restore its normal status only in 6 months after it has fully adopted correction measures. For fund management companies that manage private investment funds engaged in non-securities investment, which is the case for the ADB loan project, at least two top management members shall have the private fund professional qualification. Particularly, the legal representative/managing partner, and compliance/risk control officer should hold the qualification. The compliance/risk control officer is prohibited to conduct investment related operations. The circular further specifies details for the qualification conditions and procedures.

4. **Regulation of Commercial Banks.** Since 2003, the CBRC has been responsible for banking regulation and supervision in the PRC. The Law of the PRC on Banking Regulation and Supervision provides the legal basis for CBRC to act as the sector's regulator and that prudential rules and guidelines applied to banks may be stipulated in laws or administrative regulations, or formulated by the banking regulatory authority under the State Council in accordance with applicable laws and administrative regulations. CBRC applies a (i) rating system for commercial banks to ensure their compliance with regulatory and prudential business standards, and (ii) a risk based regulatory approach which is described in some more detail in the following paragraphs below. CBRC's regulations are consistent with the Basel III as confirmed during the independent review by the Bank of International Settlements.[3]

5. **CBRC's risk-based rating framework for commercial banks**. CBRC issued Internal Guidelines on Supervisory Ratings for Commercial Banks (Tentative) in December 2005 and they became effective after January 2006. The guidelines feature a capital adequacy, asset quality, management efficacy, earnings quality, liquidity position and sensitivity (CAMELS) assessment framework with Chinese characteristics for commercial banks, so called CAMELS+ system. The "CAMELS+" rating system works as follows: firstly, individual ratings are assigned to each of the six-performance criterion. Each criterion includes both quantitative and qualitative metrics. In a second step, a composite rating is calculated by risk-weighting the six individual ratings. The overall weighted score ranges from 0 to 100 and is classified into six scores ranging from score 1 (best) to 6 (worst), reflecting different levels of a commercial bank's sustainable operating capability. The final rating is obtained through further assigning positive or negative adjustment ratings to the composite rating in light of the influence of other factors on banking risks (e.g., adjusting a composite rating "3" to a final rating "3+" or "3-"). The final ratings may serve as the basis for supervisors to choose different supervisory approaches towards a bank or determine necessary supervisory actions imposed on them. For high-risk banks whose ratings are 5 or 6, the CBRC will attach close supervisory attention to them, place restrictions on their activities, urge them to improve business performance, and, if necessary, imposing other penalties such as revoking the qualifications of their senior management, arranging their restructuring or takeover, or, in the worst case, closing them.[4]

6. CBRC's CAMELS+ evaluation practice is consistent with the ADB guidelines on financial due diligence on financial intermediaries. This risk weighting of the six performance criteria is shown in Table 1 below.

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[3] Bank for International Settlements. 2013. *Regulatory Consistency Assessment Programme.* Basel.

[4] http://www.cbrc.gov.cn/EngdocView.do?docID=2210

Table 1: CBRC's CAMELS+ Rating System for Commercial Banks

Category	Weight
Capital Adequacy	20%
Asset Quality	20%
Management Efficacy	25%
Earnings Quality	10%
Liquidity Position	15%
Sensitivity to Market Risk	10%

Source: PPTA consultant based on CBRC regulations

7. Also in 2005, CBRC issued *Core Metrics for Commercial Bank Risk Regulation (trial).*[5] This rule sets up a framework of core metrics for risk-based regulation, which includes three sets of metrics, notably (i) risk level, (ii) risk transformation, and (iii) risk mitigation.

(i) Risk level metrics are static metrics and include (a) liquidity risk metrics, (b) credit risk metrics, (c) market risk metrics, and (d) operation risk metrics.

a. Liquidity risk metrics are further broken into: (i) current ratio with regulation requirement of no less than 25%, (ii) core liability to total liabilities ratio regulated as no less than 60%, and (iii) liquidity shortage rate with minimum requirement of -10%.

b. Credit risk metrics include (i) Non-Performing Asset (NPA) ratio required as no more than 4%, under which there is one sub-metric: Non-performing Loan (NPL) ratio required as no more than 5%, (ii) single group client credit extension concentration required as no higher than 15%, under which there is one sub-metric: single client loan concentration required as no higher than 10%, and (iii) overall related-credit extension rate required as no more than 50%.

c. Market risk metrics include: (i) accumulated foreign exchange exposure to net capital ratio, required as no higher than 20%, and (ii) interest rate sensitivity whose regulation requirement will be separately enacted.

d. Operation risk metric measures the risk that occurs due to the internal control system's imperfection, operator's mistakes and external events, and represents in the ratio of loss occurred from operation to the average amount of interest revenues and non-interest revenues in three previous periods. This regulation requirement will be separately enacted as well.

(ii) Risk transformation metrics measure the extent how much a commercial bank's risk has changed and represent in ratios of its asset quality transformed from previous period to the current period. They are dynamic metrics and include normal loan transformation ratio and NPL transformation ratio. Normal loan transformation ratio is the ratio of the portion of normal loans in previous period transformed into NPL in current period divided by the normal loans. It has two sub-metrics: transformation ratio of normal category loans into loans in other four categories (special attention, substandard, doubtful and loss categories), transformation ratio of loans in special attention category into NPL. NPL is defined as loans in substandard, doubtful and loss categories. NPL transformation ratio include the ratio of substandard loan transformed into loans in doubtful and loss categories and the ratio of doubtful loan transformed into loans in loss category.

(iii) Risk mitigation metrics include (i) earnings capability metrics, such as cost to revenue ratio (no more than 45%), (ii) return on asset (no less than 0.6%), (iii) return on equity (no less than 11%), (iv) asset loss provision rate (no less than

5 http://www.cbrc.gov.cn/chinese/home/docDOC_ReadView/2196.html

100%), (v) loan loss provision rate (no less than 100%), (vi) core capital adequacy ratio (no less than 4%) and (vii) capital adequacy ratio (no less than 8%).

8. In May 2011, with intention to adjust the monitoring metrics to Basel III standards, CBRC issued its *“Guiding Opinions on Implementing New Supervision Standards in the PRC's Banking Sector.”* The new supervision standards were implemented after 1 January 2012. Commercial banks in the PRC are classified by CBRC into three tiers: (i) tier 1 banks comprise so-called systemically important banks, (ii) tier 2 banks comprise 12 national joint stock city banks, to which SPDB belongs, and (iii) tier 3 banks are mostly smaller local banks. The new supervision standards in compliance with Basel III are implemented in a phased approach. First, tier 1 banks had to adopt and were expected to fully comply with the standards by the end of 2013. Tier 2 banks are required to comply with the standards no later than the end of 2017, and by the end of 2018 tier 3 banks have to reach full compliance with these standards. A number of supporting rules were gradually enacted by CBRC to provide more detailed supervision guidance, including (i) *Capital Regulation Rules for Commercial Banks (provisional) (2012)*, (ii) *Commercial Bank Liquidity Risk Management Rules (2014 and modified 2015*), and (iii) *Commercial Bank Leverage Ratio Management Rules (2015),* etc. An assessment team organized by BASEL Committee concluded that the PRC’s implementation of the Basel III capital framework was closely aligned with this framework: 12 out of 14 assessed components were found to be “compliant.” Although some differences with the Basel framework were found, none of the findings was judged to be material at this point.[6] Therefore, banks satisfying CBRC’s regulations can be generally regarded as “compliant” with Basel III, as well.

9. In addition to the monitoring metric framework, CBRC also established detailed methods similar to Basel III in the related asset/liability classification, risk adjusted capital calculation, and non-performing loan definition etc. All commercial banks are required to use the related methods to make their statistics. CBRC directly supervises the headquarter operation of commercial banks and their overall performance in designated monitoring metrics, and entitles the related banking regulatory bureaus in provinces and in cities to monitor the business of commercial bank branches running business there

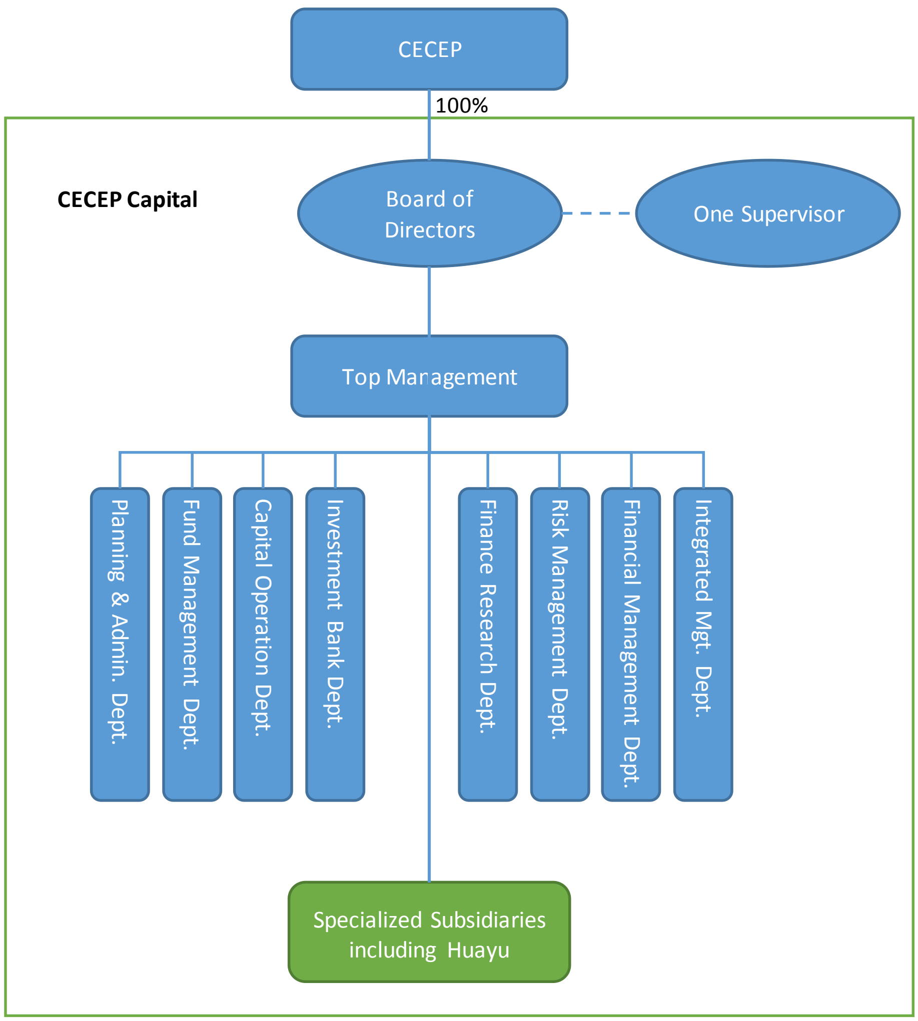
[6] The full assessment of compliance of China’s banking regulation with Basel III is shown in: http://120.52.73.79/www.bis.org/bcbs/implementation/l2_cn.pdf

J. CECEP Capital Holdings Co., Ltd.

1. **Role and Financial Management Responsibilities of CECEP Capital during Loan Implementation**. CECEP Capital Holdings Co., Ltd. (CECEP Capital) is the second-tier subsidiary of CECEP and controlling shareholder (55%) of CECEP Huayu. It will add necessary capital to CECEP Huayu as required by the ADB loan project.

2. **Shareholders and organizational structure.** CECEP Capital was established in May 2015 with CNY1 billion of registered capital solely by CECEP. It is headquartered in Beijing and has Unified Social Credit Code of 9111000034422872XK. In November 2015, its capital was scaled up to CNY5 billion. The shareholders and organization structure of CECEP Capital is shown in Figure 1.

Figure 1: Organization structure of CECEP Capital



Source: CECEP Capital's replied ADB Due Diligence Questionnaire

3. With more than sufficient registered capital of CNY5 billion, of which a little bit over CNY2 billion has been paid in, and about CNY3 billion is to be paid in the future as per its funding need, and with CNY56 million of tradable financial assets and CNY1.4 billion of available for sales

financial assets in hand, CECEP Capital can inject with no doubt additional capital to CECEP Huayu as needed by the ADB loan project in accordance with its capital share in the company.

4. CECEP Capital's business is focused on investment, investment management, asset management and investment consulting. Its vision is to become the first brand of green financing institution in the PRC.

5. **CECEP Capital's Financial Management System**. As required by its parent company CECEP, CECEP Capital is in compliance with CECEP's financial management system that complies with all related regulations.

6. **CECEP Capital's accounting practices for the FIL project.** In line with CECEP's financial management system, CECEP Capital has adopted the ASBEs, and consequently the ADB's requirement of accounting standards and procedures consistent with the IAS and the quality of accounting can be assured.

7. **Staffing and Capacity of CECEP Capital's Financial Management Department**. The Financial Management Department of CECEP Capital is staffed with four qualified personnel responsible for the financial and accounting management of the headquarters and consolidated reporting of the group. They utilize a computerized accounting software provided by one of the largest financial software providers, Yongyou, which can generate financial statements automatically from accounting ledgers in accordance with PRC's Generally Accepted Accounting Principles. The accounting system can fulfill the function of the project based accounting as well. Most financial professionals under the group company work in the subsidiary level. External audit of the company's financial statements is usually arranged by the Financial Management Department of parent company CECEP.

8. **Audit**. CECEP Capital's internal and external audit are managed by the Audit Department of CECEP. At present, its external auditor is also Zhongqinxin CPAs, same as CECEP. As for the ADB loan project, CECEP Capital will coordinate the related internal and external audit the project account (namely the REA), and they will also provide cooperation for national agency's audit.

9. **CECEP Capital's Financial Standing.** CECEP Capital does not bear any risk for the FIL project. As the controlling shareholder of CECEP Huayu, it has sufficient funding capacity to support CECEP Huayu as needed and is supportive of investment decision processes as defined by the Facility and Funds. Since CECEP Capital was just established in 2015, it does not have sufficient historical data to support the assessment of its financial performance. The assessment documents the current financial standing of CECEP Capital so as to give a preliminary idea on its sustainability. As of December 2016, CECEP Capital has CNY2.28 billion of total assets, of which most are equity and only CNY149 million is liabilities. In 2015 when it was established, it suffers a loss of CNY49.44 million, mostly because of the start-up expenses. In 2016, it started to make profit at CNY14 million, and harvest a positive operating cash flow of CNY12.45 million. However, at the end of December 2016, CECEP capital holds only CNY28.7 million of cash and cash equivalent, which is not sufficient to the corresponding share of CECEP Capital on its subsidiary CECEP Huayu for the new capital contribution required by the ADB loan project, which is 55% of €27 million as estimated in April 2017 by CECEP Huayu. Because CECEP as sole investor of CECEP Capital has about CNY3 billion of unpaid registered capital for CECEP Capital and it has plenty of money, about CNY16.5 billion of cash, at end of 2016, CECEP Capital will not have any funding problem for necessary capital injection to CECEP Huayu as long as the establishment plan of the Facility and Funds under the Facility is approved by the board of directors of CECEP.

10. The related financial statements of CECEP Capital from are illustrated in Table 1. It can be preliminarily concluded that CECEP Capital, as a second-tier subsidiary of CECEP, is financially robust, is capable of injecting necessary capital to CECEP Huayu as needed by the ADB loan project and can remain for long time.

Table 1: Financial Statements of CECEP Capital

Consolidated Balance Sheet Amount in CNY

ASSETS	2015	2016
Current Assets		
Cash & equivalent	166,948,193	28,711,137
Tradable financial assets	630,953,314	56,078,863
Notes receivable		
Net accounts receivable	20,014,115	7,550,000
Accounts prepaid	139,010	1,828,580
Interest receivable		
Dividend receivable		
Other receivables	2,934,330	2,934,630
Inventories		
Prepaid and deferred expenses		
Unsettled G/L on current assets		
Long-term bonds due in a year		
Other current assets		
Total current assets	820,988,962	97,103,210
Non-current assets		
Available for sale financial assets	424,499,007	1,438,551,945
Hold-to-maturity investment		
Long-term account receivable		
Long-term equity investment	405,008,169	748,771,404
Invested real estate		
Fixed Assets		
Fixed assets-cost	3,407,517	2,926,763
Less:Accumulated Dpreciation	1,591,629	887,096
Fixed assets-net value	1,815,888	2,039,667
Minus: fixed asset devaluation allowance		
Net amount of fixed assets	1,815,888	2,039,667
Construction in Progress		
Engineering material		
Disposal of fixed assets		
Intangible & Deferred Assets		
Intangible assets (land, patents etc.)		
R&D expenditures		
Goodwill		
Long-term ammortizable expenses		
Total Intangible assets	-	-
Deferred tax assets		
Other long term assets		
Total Non-current Assets	831,323,064	2,189,363,016
TOTAL ASSETS	**1,652,312,026**	**2,286,466,227**

LIABILITIES AND OWNERS' EQUITY	2015	2016
Current Liabilities		
Short-term loans		90,000,000
Inter-company borrowings		
Tradable financial debt		
Notes payable		
Accounts payable		
Advances from customers		
Payroll & welfare payable	609,100	
Taxes & administration fee payable	749,773	1,062,348
Interest payable		
Dividend payable		
Other accounts payable	23,835,007	58,317,683
Debt from broking security trade		
Long-term liabilities due within one year		
Other current liabilities		
Total current liabilities	25,193,880	149,380,030
Long-term Liabilities		
Long-term loans payable		
Bonds payable		
Long-term accounts payable		
Special program account payable		
Anticipated liabilities		
Deferred revenues		
Deferred tax liabilities		
Other long-term liabilities		
Total long-term liabilities	-	-
Total Liabilities	25,193,880	149,380,030
Shareholder's Equity		
Paid-in Capital	1,516,250,000	2,096,250,000
Capital surplus		
Other comprehensive earnings	152,719,008	68,381,964
Earned Surplus		
Reserve for risks & foreign exchange		
Retained earnings	-52,336,002	-42,066,585
Equity attributed to parent company	1,616,633,006	2,122,565,379
Minority shareholder's equity	10,485,140	14,520,817
# **Total Shareholder's Equity**	1,627,118,146	2,137,086,196
Total Liabilities & Equity	**1,652,312,026**	**2,286,466,227**

Consolidated Income Statement

Items	2015	2016
1. Sales Revenue	22,832,770	27,671,420
2. Operation costs		
Cost of goods/services sold		
Sales tax and Surcharges	936,973	974,938
Total Operation Costs	936,973	974,938
2. Gross Profit	21,895,796	26,696,482
Selling expenses		
General & management exp.	30,488,900	31,058,314
Financial expenses	-2,312,090	-4,838,338
In which, Interest expense		663,738
Interest revenue	2,315,568	5,597,156
Less: Asset devaluation loss		
Net loss in foreign exchange		
Add: Income on investment	-44,757,997	31,881,346
Gain on fair value change	-2,983,794	-17,888,675
3. Operating Profit	-54,022,805	14,469,177
Plus: Non-operating income	4,282,296	430
Minus: Non-operating expenses		159,085
of which, loss from disposal of non-current assets		59,082
loss from debt restructuring		
4. Before-tax Profit	-49,740,509	14,310,522
Less: Income tax	6,604	5,428
5. Net Profit	**-49,747,114**	**14,305,094**

Cashflow Statement

Items	2015	2016
1. Cash Flow from Operating Activities		
Cash from sales of goods and services	8,117,136	41,695,821
Cash from interest, fee, and comission		
Tax rebate		
Other cash received related to operating	272,680,204	506,274,446
Cash Inflow Subtotal	280,797,340	547,970,267
Cash paid for goods and services	4,968,800	
Cash paid to and for employees	4,220,626	7,976,206
Taxes and fees paid	2,013,578	2,558,422
Other cash paid related to operating	280,968,254	524,985,720
Cash Outflow Subtotal	292,171,258	535,520,348
NCF from operating activities	-11,373,918	12,449,919
2. Cash Flow from Investing Activities		
Cash from investment withdrawal	5,819,686,262	16,754,629,875
Cash from paid dividends, profits and interests	51,233	8,982,995
Net cash from asset disposal		
Net cash from disposing subsidiaries		
Other cash received related to investing		
Cash Inflow Subtotal	5,819,737,495	16,763,612,870
Cash paid for asset purchase	498,851	803,255
Cash paid for equity/debt investment	7,171,422,732	17,582,832,853
Cash paid for acquiring subsidiaries		
Other cash paid related to investing		
Cash Outflow Subtotal	7,171,921,583	17,583,636,108
NCF from investing activities	-1,352,184,088	-820,023,238
3. Cash Flow from Financing Activities:		
Cash received from shareholers	1,516,250,000	580,000,000
Borrowings		140,000,000
Other cash received related to financing		
Cash Inflow Subtotal	1,516,250,000	720,000,000
Cash paid for debt repayment		50,000,000
Cash paid for dividend, interest and profit		663,738
Cash paid for other financing activities		
Cash Outflow Subtotal	-	50,663,738
NCF from financing activities	1,516,250,000	669,336,263
4. Foreign Currency Translation Gains		
5. Net Increase Of Cash & Cash Equivalent	**152,691,994**	**-138,237,056**

Source: CECEP Capital's audited financial statements 2015 and 2016 unaudited financial statements.

CECEP's Financial Statements

A. Consolidated Balance Sheet

ASSETS	2011	2012	2013	2014	2015	2016
Current Assets						
Cash & equivalent	10,746,446,302	12,025,235,888	15,670,330,780	17,063,248,734	18,894,481,872	16,501,225,301
Tradable financial assets	28,314,690	219,096,677	773,524,633	953,105,174	1,507,411,817	555,126,432
Notes receivable	512,714,137	815,805,109	1,028,831,975	1,244,292,079	1,879,998,124	1,476,877,992
Net accounts receivable	3,341,014,852	7,002,969,529	8,408,705,526	10,790,083,748	11,250,093,062	13,527,078,136
Accounts prepaid	2,583,189,024	3,030,140,909	4,203,583,300	4,091,373,849	4,081,708,336	4,598,975,878
Interest receivable	459,656	27,825,214	38,680,031	79,338,979	61,719,751	26,179,472
Dividend receivable	17,444,789	16,159,339	21,483,599	22,830,915	17,465,486	100,364,900
Other receivables	2,683,750,569	3,124,299,681	3,625,591,712	3,060,908,195	4,586,060,979	4,392,877,876
Inventories	4,940,085,339	5,954,435,187	8,308,289,990	9,621,039,769	12,542,194,180	11,631,838,179
Prepaid and deferred expenses						
Unsettled G/L on current assets						
Long-term bonds due in a year	89,289	196,685	316,473			
Other current assets	189,995,420	139,505,796	57,665,337	246,467,956	1,179,629,941	2,538,148,403
Total current assets	25,043,504,067	32,355,670,014	42,137,003,355	47,172,689,399	56,000,763,548	55,348,692,569
Non-current assets						
Available for sale financial assets	1,142,057,404	1,009,704,458	829,847,091	3,254,320,392	3,675,733,025	5,489,598,416
Hold-to-maturity investment	57,992,843	6,853,343	5,692,145	22,238,960		119,367,600
Long-term account receivable	457,710,318	768,164,612	1,502,992,489	1,773,351,530	2,706,236,043	2,879,136,136
Long-term equity investment	2,607,325,562	3,190,251,375	3,026,542,052	1,602,460,472	1,581,096,733	1,356,552,051
Invested real estate	1,945,080,052	1,937,676,307	2,065,425,518	2,185,538,328	2,529,215,259	3,820,624,454
Fixed Assets						
Fixed assets-cost	23,383,638,227	33,213,680,547	39,661,551,292	50,873,524,203	54,831,404,403	64,830,832,831
Less:Accumulated Dpreciation	4,603,333,546	6,734,621,430	8,320,441,106	11,000,257,492	12,184,761,527	14,809,680,855
Fixed assets-net value	18,780,304,681	26,479,059,117	31,341,110,186	39,873,266,711	42,646,642,876	50,021,151,976
Minus: fixed asset devaluation allowance	39,102,260	38,259,499	56,619,074	125,364,667	112,806,367	115,011,918
Net amount of fixed assets	18,741,202,420	26,440,799,618	31,284,491,112	39,747,902,045	42,533,836,508	49,906,140,058
Construction in Progress	6,930,856,916	8,547,353,956	11,111,268,929	14,740,207,033	13,738,310,187	13,700,225,888
Engineering material	9,864,139	16,597,439	9,775,016	16,829,163	41,001,958	82,670,496
Disposal of fixed assets	401,022	968,290	11,085,128	3,066,969		148,237
Intangible & Deferred Assets						
Intangible assets (land, patents etc.)	3,766,164,855	5,014,659,550	8,226,761,256	8,070,580,935	7,607,956,754	8,171,266,888
R&D expenditures	46,357,547	57,458,308	52,676,214	71,824,134	99,587,300	131,475,163
Goodwill	159,466,451	1,648,347,751	2,023,745,737	2,433,344,016	2,377,622,186	2,929,266,529
Long-term ammortizable expenses	81,309,392	109,017,721	108,836,396	144,454,675	215,559,430	237,469,868
Total Intangible assets	4,053,298,244	6,829,483,330	10,412,019,604	10,720,203,761	10,300,725,670	11,469,478,449
Deferred tax assets	151,735,785	213,312,758	245,358,862	184,537,332	246,865,416	276,174,144
Other long term assets	466,521,424	1,065,777,684	885,502,152	363,523,028	2,522,253,066	2,774,549,529
Total Non-current Assets	36,564,046,130	50,026,943,171	61,390,000,098	74,614,179,012	79,875,273,866	91,874,665,457
TOTAL ASSETS	**61,607,550,197**	**82,382,613,185**	**103,527,003,453**	**121,786,868,411**	**135,876,037,414**	**147,223,358,026**

LIABILITIES AND OWNERS' EQUITY	2011	2012	2013	2014	2015	2016
Current Liabilities						
Short-term loans	4,686,224,241	6,895,045,367	10,747,284,605	13,252,324,207	7,444,435,741	3,760,513,552
Inter-company borrowings						
Tradable financial debt		1,033,614	450,212	7,497,322	14,709,328	17,257,782
Notes payable	2,423,176,129	2,377,109,090	3,880,205,752	2,891,119,114	2,828,684,453	3,377,391,026
Accounts payable	4,403,669,027	6,105,250,321	7,827,176,969	11,140,537,346	10,213,012,367	11,276,134,812
Advances from customers	1,741,030,762	1,763,545,462	2,952,437,020	2,576,186,288	4,505,893,061	4,480,211,988
Payroll & welfare payable	290,730,451	290,004,444	303,292,113	402,389,996	477,163,594	514,421,769
Taxes & administration fee payable	-200,884,233	-102,325,320	-1,027,782,772	-1,179,975,717	894,703,048	976,165,016
Interest payable	27,524,717	58,754,155	65,183,913	109,346,430	111,458,999	81,324,427
Dividend payable	92,803,416	112,406,568	174,792,903	118,364,462	183,373,703	252,990,984
Other accounts payable	2,162,985,138	2,538,945,052	3,948,241,468	3,681,977,058	4,272,924,453	5,261,676,700
Debt from broking security trade						
Long-term liabilities due within one year	1,040,817,990	2,110,093,342	1,432,000,482	6,572,335,878	4,829,877,706	2,561,748,447
Other current liabilities	1,856,945,411	1,613,039,205	2,011,897,417	2,031,477,427	5,534,118,634	3,027,449,681
Total current liabilities	18,525,023,050	23,762,901,300	32,315,180,083	41,603,579,811	41,310,355,086	35,587,286,185
Long-term Liabilities						
Long-term loans payable	15,003,019,375	17,295,958,358	25,045,871,608	28,211,767,490	28,260,227,596	34,773,324,571
Bonds payable	1,032,510,556	3,844,489,723	5,893,342,500	6,446,031,389	8,304,050,198	17,391,618,056
Long-term accounts payable	833,658,502	691,419,617	916,029,943	2,424,049,138	4,962,223,289	5,126,057,064
Special program account payable	44,826,018	106,236,922	368,435,227	376,652,894	460,280,054	414,975,196
Anticipated liabilities	39,829,153	7,768,199	7,352,226	29,331,705	22,142,182	99,059,660
Deferred revenues				972,975,052	1,083,466,610	1,051,403,426
Deferred tax liabilities	272,853,886	484,304,901	476,177,142	561,091,227	648,644,383	370,891,114
Other long-term liabilities	5,789,471,885	7,599,361,031	7,899,829,072	7,889,327,999	8,049,032,659	5,263,988,091
Total long-term liabilities	23,016,169,374	30,029,538,751	40,607,037,717	46,911,226,895	51,790,066,970	64,491,317,179
Total Liabilities	41,541,192,425	53,792,440,050	72,922,217,800	88,514,806,705	93,100,422,056	100,078,603,364
Shareholder's Equity						
Paid-in Capital	6,783,380,608	6,881,040,608	7,326,937,508	7,632,337,508	12,589,327,508	12,558,637,508
Capital surplus	1,551,475,057	2,063,415,183	1,713,334,346	1,226,640,079	1,197,020,566	3,510,449,060
Other comprehensive earnings	-35,329,133	-43,184,180	-62,150,535	674,170,005	955,992,886	316,221,608
Earned Surplus	53,153,151	53,153,151	53,153,151	53,153,151	53,153,151	53,153,151
Reserve for risks & foreign exchange	7,372,004	12,756,516	20,444,455	52,516,481	175,324,506	68,320,711
Retained earnings	1,820,915,976	2,198,909,978	2,604,414,261	3,439,072,135	3,767,928,399	2,895,725,573
Equity attributed to parent company	10,180,967,663	11,166,091,256	11,656,133,186	13,077,889,358	18,738,747,016	19,402,507,610
Minority shareholder's equity	9,885,390,109	17,424,081,879	18,948,652,467	20,194,172,348	24,036,868,342	27,742,247,052
Total Shareholder's Equity	20,066,357,772	28,590,173,134	30,604,785,653	33,272,061,706	42,775,615,358	47,144,754,662
Total Liabilities & Equity	**61,607,550,197**	**82,382,613,185**	**103,527,003,453**	**121,786,868,411**	**135,876,037,414**	**147,223,358,026**

B. Consolidated Income Statement

Items	2011	2012	2013	2014	2015	2016
1. Sales Revenue	26,781,153,887	33,194,095,976	41,257,980,577	46,377,600,492	46,399,838,571	48,485,488,122
2. Operation costs						
Cost of goods/services sold	19,938,452,445	24,618,094,382	30,460,650,211	33,247,352,398	31,087,151,930	31,945,673,982
Sales tax and Surcharges	374,888,437	386,429,644	434,854,475	558,755,090	581,184,579	633,489,435
Total Operation Costs	20,313,340,882	25,004,524,026	30,895,504,687	33,806,107,488	31,668,336,510	32,579,163,417
2. Gross Profit	6,467,813,005	8,189,571,950	10,362,475,891	12,571,493,004	14,731,502,061	15,906,324,706
Selling expenses	2,378,515,385	2,577,940,458	3,005,506,029	4,083,430,184	5,169,039,632	5,936,053,417
General & management exp.	1,899,806,394	2,337,652,223	3,031,749,403	3,291,555,570	3,634,685,226	3,802,472,148
Financial expenses	1,307,233,331	1,777,166,622	2,009,031,404	2,926,506,565	3,426,919,317	3,097,775,659
In which, Interest expense	1,431,116,567	1,876,544,145	2,424,692,102	3,201,886,311	3,651,038,079	3,265,540,737
Interest revenue	191,598,538	218,231,983	458,010,408	566,082,656	502,089,093	400,575,065
Less: Asset devaluation loss	66,684,183	93,032,289	412,416,600	564,074,492	667,433,180	796,196,695
Net loss in foreign exchange						
Add: Income on investment	656,106,317	180,469,003	293,766,143	733,496,633	384,896,626	403,800,325
Gain on fair value change	-8,134,874	41,580,004	47,413,962	4,969,342	29,226,239	57,793,738
3. Operating Profit	1,463,545,156	1,625,829,366	2,244,952,560	2,444,392,168	2,247,547,571	2,735,420,849
Plus: Non-operating income	472,824,135	671,518,302	834,878,669	1,076,316,411	1,683,619,930	1,140,178,727
Minus: Non-operating expenses	52,254,016	47,671,266	52,056,256	39,403,447	75,379,624	300,365,703
of which, loss from disposal of non-current asse	12,164,911	11,288,851	16,026,636	12,161,181	19,149,210	14,729,253
loss from debt restructuring	13,294,954		1,348,768	5,000,000		63,000
4. Before-tax Profit	1,884,115,275	2,249,676,403	3,027,774,973	3,481,305,131	3,855,787,877	3,575,233,874
Less: Income tax	578,304,403	518,365,358	858,323,933	967,409,968	1,102,717,212	1,283,299,391
5. Net Profit	**1,305,810,872**	**1,731,311,045**	**2,169,451,040**	**2,513,895,163**	**2,753,070,665**	**2,291,934,482**

C. Cashflow Statement

Items	2011	2012	2013	2014	2015	2016
1. Cash Flow from Operating Activities						
Cash from sales of goods and services	25,987,002,240	31,269,642,272	41,106,251,138	42,818,609,608	44,527,620,963	
Cash from interest, fee, and comission				58,055,376	280,066,443	
Tax rebate	171,068,962	175,077,778	216,678,794	185,665,860	223,695,110	
Other cash received related to operating	873,458,331	1,326,169,603	3,117,452,308	5,283,076,585	4,154,253,968	
Cash Inflow Subtotal	27,031,529,534	32,770,889,653	44,440,382,241	48,345,407,428	49,185,636,484	-
Cash paid for goods and services	18,360,120,150	20,918,838,937	27,767,755,862	29,412,674,175	26,043,085,002	
Cash paid to and for employees	2,004,657,629	2,310,884,661	2,826,913,360	3,413,449,560	3,846,346,586	
Taxes and fees paid	1,791,211,778	2,075,274,394	2,552,782,583	2,996,647,281	3,704,657,430	
Other cash paid related to operating	2,278,655,132	4,840,901,643	7,654,195,553	8,089,536,467	10,494,685,631	
Cash Outflow Subtotal	24,434,644,689	30,145,899,635	40,801,647,357	43,912,307,483	44,088,774,648	-
NCF from operating activities	2,596,884,845	2,624,990,019	3,638,734,883	4,433,099,945	5,096,861,835	-
2. Cash Flow from Investing Activities						
Cash from investment withdrawal	2,686,153,404	2,872,562,053	5,322,868,921	4,493,194,898	11,206,807,002	
Cash from paid dividends, profits and intere	174,680,025	193,150,890	244,446,744	344,472,325	271,055,888	
Net cash from asset disposal	74,165,669	53,342,342	68,530,685	48,789,515	24,850,367	
Net cash from disposing subsidiaries	476,365,662	48,967,268	134,383,365	194,699,398	121,421,759	
Other cash received related to investing	537,346,281	760,891,853	746,718,395	405,284,147	1,333,201,545	
Cash Inflow Subtotal	3,948,711,040	3,928,914,405	6,516,948,109	5,486,440,284	12,957,336,562	-
Cash paid for asset purchase	5,892,561,000	7,250,452,144	11,440,797,754	9,605,602,100	10,489,387,758	
Cash paid for equity/debt investment	3,230,885,024	4,585,038,932	6,972,415,177	5,667,128,399	11,642,019,921	
Cash paid for acquiring subsidiaries	116,789,886	1,948,596,101	281,980,110	1,454,402,519	165,069,373	
Other cash paid related to investing	392,773,536	1,142,193,868	274,430,538	886,048,683	1,133,992,218	
Cash Outflow Subtotal	9,633,009,446	14,926,281,045	18,969,623,579	17,613,181,701	23,430,469,269	-
NCF from investing activities	-5,684,298,406	-10,997,366,640	-12,452,675,470	-12,126,741,417	-10,473,132,708	-
3. Cash Flow from Financing Activities:						
Cash received from shareholers	3,916,915,273	2,892,662,804	1,040,021,928	1,270,182,398	9,347,127,410	
Borrowings	17,209,750,064	35,798,910,611	49,449,256,578	83,109,440,239	78,374,231,101	
Other cash received related to financing	5,048,757,873	8,496,722,754	20,587,791,243	16,070,257,684	6,578,039,423	
Cash Inflow Subtotal	26,175,423,211	47,188,296,170	71,077,069,749	100,449,880,320	94,299,397,933	-
Cash paid for debt repayment	14,662,882,448	26,776,163,257	33,958,231,837	83,622,866,755	77,089,880,089	
Cash paid for dividend, interest and profit	1,751,135,332	2,655,529,778	3,043,299,382	4,657,555,189	4,908,000,229	
Cash paid for other financing activities	4,055,220,756	8,769,178,590	22,535,477,429	2,988,431,766	5,102,743,441	
Cash Outflow Subtotal	20,469,238,536	38,200,871,625	59,537,008,649	91,268,853,710	87,100,623,759	-
NCF from financing activities	5,706,184,675	8,987,424,545	11,540,061,100	9,181,026,610	7,198,774,174	-
4. Foreign Currency Translation Gains	-30,241,629	-37,793,363	7,592,225	-45,102,765	58,647,637	
5. Net Increase Of Cash & Cash Equivalent	**2,588,529,484**	**577,254,560**	**2,733,712,738**	**1,442,282,373**	**1,881,150,938**	**-**

CECEP Huayu Fund Management Co., Ltd.
Financial Statements

A. Consolidated Balance Sheet

ASSETS	2012	2013	2014	2015	2016
Current Assets					
Cash & equivalent	2,738,421	7,076,881	14,256,199	11,872,679	27,859,484
Tradable financial assets	4,063,290	4,443,050	14,830		
Notes receivable					
Net accounts receivable		1,700,000	4,814,115	20,014,115	7,550,000
Accounts prepaid				139,010	175,000
Interest receivable					
Dividend receivable					
Other receivables	4,063,858	747,191	627,428	329,341	329,341
Inventories					
Prepaid and deferred expenses					
Unsettled G/L on current assets					
Long-term bonds due in a year					
Other current assets					
Total current assets	10,865,569	13,967,122	19,712,572	32,355,145	35,913,826
Non-current assets					
Available for sale financial assets		2,400,000	30,000	30,000	11,620,000
Hold-to-maturity investment					
Long-term account receivable					
Long-term equity investment	1,910,000				
Invested real estate					
Fixed Assets					
Fixed assets-cost	1,733,923	1,736,233	1,765,448	1,765,448	653,678
Less:Accumulated Dpreciation	707,331	990,393	1,248,994	1,473,723	436,011
Fixed assets-net value	1,026,592	745,840	516,455	291,726	217,667
Minus: fixed asset devaluation allowance	-				
Net amount of fixed assets	1,026,592	745,840	516,455	291,726	217,667
Construction in Progress					
Engineering material					
Disposal of fixed assets					
Intangible & Deferred Assets					
Intangible assets (land, patents etc.)					
R&D expenditures					
Goodwill					
Long-term ammortizable expenses		1,303,562	984,322		
Total Intangible assets	-	1,303,562	984,322	-	-
Deferred tax assets					25,000
Other long term assets					
Total Non-current Assets	2,936,592	4,449,401	1,530,777	321,726	11,862,667
TOTAL ASSETS	**13,802,160**	**18,416,523**	**21,243,349**	**32,676,871**	**47,776,492**

LIABILITIES AND OWNERS' EQUITY	2012	2013	2014	2015	2016
Current Liabilities					
Short-term loans					
Inter-company borrowings					
Tradable financial debt					
Notes payable					
Accounts payable					
Advances from customers	633,333	253,333			
Payroll & welfare payable	1,146,667	420,000	812,700	609,100	
Taxes & administration fee payable	33,094	67,664	761,796	740,459	1,156,010
Interest payable					
Dividend payable					
Other accounts payable	1,432,163	3,833,129	2,121,626	8,027,000	8,027,000
Debt from broking security trade					
Long-term liabilities due within one year					
Other current liabilities					
Total current liabilities	3,245,258	4,574,126	3,696,122	9,376,559	9,183,010
Long-term Liabilities					
Long-term loans payable					
Bonds payable					
Long-term accounts payable					
Special program account payable					
Anticipated liabilities					
Deferred tax liabilities					
Other long-term liabilities					
Total long-term liabilities	-	-	-	-	-
Total Liabilities	3,245,258	4,574,126	3,696,122	9,376,559	9,183,010
Shareholder's Equity					
Paid-in Capital	60,000,000	60,000,000	60,000,000	60,000,000	60,000,000
Capital surplus					
Other comprehensive earnings					
Earned Surplus					
Special reserve					
Retained earnings	-49,443,098	-46,157,603	-42,452,773	-36,699,689	-21,406,517
Equity attributed to parent company	10,556,903	13,842,397	17,547,227	23,300,311	38,593,483
Minority shareholder's equity					
Total Shareholder's Equity	10,556,903	13,842,397	17,547,227	23,300,311	38,593,483
Total Liabilities & Equity	**13,802,160**	**18,416,523**	**21,243,349**	**32,676,871**	**47,776,492**

B. Consolidated Income Statement

Items	2012	2013	2014	2015	2016
1. Sales Revenue	126,667	16,350,874	18,549,668	22,832,770	26,728,024
2. Operation costs					
Cost of goods/services sold					-
Sales tax and Surcharges	42,560	57,495	672,208	881,661	152,522
Total Operation Costs	42,560	57,495	672,208	881,661	152,522
2. Gross Profit	84,107	16,293,379	17,877,460	21,951,109	26,575,503
Selling expenses					
General & management exp.	10,524,217	14,608,933	15,236,510	16,876,375	11,261,598
Financial expenses	-148,926	-87,397	-67,890	-150,313	-118,780
In which, Interest expense			613,333		
Interest revenue	149,704	88,701	682,683	151,214	120,564
Less: Asset devaluation loss					100,000
Net loss in foreign exchange					
Add: Income on investment	234,150	234,100	450,273	383	
Gain on fair value change	-424,470	379,760	809,780	5,170	
3. Operating Profit	-10,481,505	2,385,703	3,968,893	5,230,600	15,332,685
Plus: Non-operating income		1,029,506	1,050	529,089	
Minus: Non-operating expenses	20,000	129,715	15,000		59,085
4. Before-tax Profit	-10,501,505	3,285,494	3,954,943	5,759,689	15,273,599
Less: Income tax		-	250,113	6,604	-19,572
5. Net Profit	**-10,501,505**	**3,285,494**	**3,704,830**	**5,753,085**	**15,293,171**

C. Cashflow Statement

Items	2012	2013	2014	2015	2016
1. Cash Flow from Operating Activities					
Cash from sales of goods and services	760,000	14,750,000	14,650,000	8,117,136	40,695,821
Cash from interest, fee, and comission					
Tax rebate					
Other cash received related to operating	155,406	237,619	20,376,832	515,420	843,938
Cash Inflow Subtotal	915,406	14,987,619	35,026,832	8,632,556	41,539,760
Cash paid for goods and services				4,968,800	
Cash paid to and for employees	5,838,884	3,834,745	3,079,736	3,395,891	4,298,140
Taxes and fees paid	44,502	536,896	939,735	1,168,853	1,439,203
Other cash paid related to operating	3,755,710	9,409,238	32,996,185	1,474,163	8,179,941
Cash Outflow Subtotal	9,639,096	13,780,880	37,015,656	11,007,707	13,917,284
NCF from operating activities	-8,723,690	1,206,740	-1,988,824	-2,375,151	27,622,476
2. Cash Flow from Investing Activities					
Cash from investment withdrawal			7,712,698	20,383	10,000
Cash from paid dividends, profits and inte	234,150	234,100	355,575		
Net cash from asset disposal					
Net cash from disposing subsidiaries					
Other cash received related to investing	32				
Cash Inflow Subtotal	234,182	234,100	8,068,273	20,383	10,000
Cash paid for asset purchase	37,617	2,310	32,040	28,752	45,670
Cash paid for equity/debt investment	1,910,000	490,000	10,000		11,600,000
Cash paid for acquiring subsidiaries					
Other cash paid related to investing					
Cash Outflow Subtotal	1,947,617	492,310	42,040	28,752	11,645,670
NCF from investing activities	-1,713,435	-258,210	8,026,233	-8,369	-11,635,670
3. Cash Flow from Financing Activities:					
Cash received from shareholers	-				
Borrowings					
Other cash received related to financing		10,440,000	27,291,909		
Cash Inflow Subtotal	-	10,440,000	27,291,909	-	-
Cash paid for debt repayment					
Cash paid for dividend, interest and profit					
Cash paid for other financing activities	3,760,065	7,050,070	26,150,000		
Cash Outflow Subtotal	3,760,065	7,050,070	26,150,000	-	-
NCF from financing activities	-3,760,065	3,389,930	1,141,909	-	-
5. Net Increase Of Cash Equivalent	**-14,197,189**	**4,338,460**	**7,179,318**	**-2,383,520**	**15,986,806**

Shanghai Pudong Development Bank
Financial Statements

A. Balance Sheet

Balance Sheet	2011	2012	2013	2014	2015	2016
Assets						
1 Cash on hand and due from central bank	366,957	427,563	476,342	506,067	481,157	517,230
2 Due from banks and FI	267,876	311,293	233,302	142,287	111,388	234,223
3 Lendings to banks and FI	111,415	85,420	26,828	21,969	137,806	118,892
4 Noble metal	683	6,673	3,348	11,707	28,724	9,548
5 Financial assets held for trading	5,867	18,441	28,627	32,841	63,746	177,203
6 Derivative financial assets	549	907	1,946	2,612	10,610	16,233
7 Reverse repurchase agreement	281,510	267,089	295,953	196,188	110,218	3,001
8 Interest receivable	11,071	13,546	14,709	17,328	20,437	22,911
9 Loans and advances to customers	1,302,324	1,508,806	1,725,745	1,974,614	2,171,413	2,674,557
10 Available-for-sale financial assets	147,929	150,741	160,593	222,208	254,846	620,463
11 Held to maturity investment	158,535	159,286	146,253	121,698	239,703	326,950
12 Investment classified as receivable	8,760	159,734	515,234	877,171	1,325,032	1,010,472
13 Long-term equity investment	1,857	2,464	2,268	1,475	1,599	949
14 Fixed assets	8,137	8,781	8,874	10,542	19,062	21,605
15 Construction in-process	457	1,320	1,861	3,387		
16 Intangible asset & goodwill	457	517	758	858	879	10,377
17 Long-term amortible expense	1,206	1,379	1,565	1,635	1,657	1,610
18 Deferred income tax asset	4,270	5,636	9,382	10,692	14,427	21,838
19 Other assets	4,834	16,111	26,537	40,645	51,648	69,201
Total assets	**2,684,694**	**3,145,707**	**3,680,125**	**4,195,924**	**5,044,352**	**5,857,263**
Liabilities						
1 Borrowing from central bank	50	115	601	21,006	23,645	147,622
2 Due to banks and other FI	440,908	546,564	721,119	761,531	1,042,948	1,341,963
3 Borrowing from banks	66,970	32,466	61,981	63,098	99,589	97,132
4 Trading financial liability				312	210	29,526
5 Derivative finanical liability	1,515	1,944	3,853	3,303	7,319	13,091
6 Repurchase agreements	86,020	84,540	79,557	68,240	119,205	93,200
7 Deposits from customers	1,851,056	2,134,365	2,419,696	2,724,004	2,954,149	3,002,015
8 Salary Payable	6,854	7,214	6,273	5,696	5,684	6,428
9 Taxes payable	6,510	8,295	10,496	12,066	14,776	17,620
10 Interest payable	20,279	24,679	32,841	38,750	36,235	34,082
11 Dividend payable	12	12	12	12	12	13
12 Bonds payable	32,600	68,600	63,368	146,667	399,906	664,683
13 Deferred income tax liability					7	717
14 Other liabilities	22,378	57,254	73,101	87,954	22,067	36,237
Total Liabilities	2,535,152	2,966,048	3,472,898	3,932,639	4,725,752	5,484,329
Shareholders' Equity						
1 Equity capital	18,653	18,653	18,653	18,653	18,653	21,618
2 Preferred shares				14,960	29,920	29,920
3 Capital reserve	59,543	59,560	55,775	60,639	60,639	74,678
4 Other comprehensive income				1,255	5,713	233
5 Surplus reserve	21,806	27,248	37,460	49,647	63,651	78,689
6 Provisions for general risks	18,700	23,050	29,450	36,858	45,924	65,493
7 Retained earnings	30,188	48,986	63,037	78,157	90,670	97,316
8 Difference due to foreign exchange						
Equity to the bank's shareholders	148,890	177,497	204,375	260,169	315,170	367,947
Add: Minority	652	2,162	2,852	3,116	3,430	4,987
Total Equity	149,542	179,659	207,227	263,285	318,600	372,934
Total shareholder equity and liabilities	**2,684,694**	**3,145,707**	**3,680,125**	**4,195,924**	**5,044,352**	**5,857,263**

B. Income Statement

Income Statement	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Net interest revenues	61,441	73,362	85,177	98,183	113,009	108,120
Net service fee revenues	6,717	8,746	13,904	21,346	27,798	40,692
Other revenues	-240	844	934	3,652	5,743	11,980
Operating income	67,918	82,952	100,015	123,181	146,550	160,792
Operating expense	32,161	38,533	46,492	61,430	80,483	91,132
Operating profit	35,757	44,419	53,523	61,751	66,067	69,660
Plus: non-operating income	157	434	444	443	983	459
Less: non-operating expense	75	99	118	164	173	144
Profit before tax	35,839	44,754	53,849	62,030	66,877	69,975
Less: income tax	8,484	10,443	12,649	14,670	15,880	16,297
Net profit	**27,355**	**34,311**	**41,200**	**47,360**	**50,997**	**53,678**

C. Cashflow Statement

Cashflow Statement	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Net cashflow from operating activities	189,778	92,578	308,406	191,158	358,820	-191,993
Net cashflow from investment activities	-56,479	-142,811	-315,040	-342,455	-531,220	-64,015
Net cashflow from financing activities	13,094	30,009	-18,376	72,897	244,782	234,342
Influence on cash due to exchange rate change	-1,361	-230	-1,048	1,068	3,521	4,390
Cash increase/(decrease) for the year	**145,032**	**-20,454**	**-26,058**	**-77,332**	**75,903**	**-17,276**
Plus: opening balance of cash & equivalent	167,596	312,628	292,174	266,116	188,784	264,687
Ending balance of cash and cash equivalents	312,628	292,174	266,116	188,784	264,687	247,411

Draft Term Sheets

Annex 1: Discussion Draft for Regional Fund

Investors: People's Insurance Company of China (PICC), the ADB-provided Facility ("Facility"), and the General Partnership (GP)

Fund structure: Limited partnership

Fund manager and GP: CECEP Huayu Fund Management Company. Except as specified in "Payments" below, all Fund costs and expenses will be borne by the Fund Manager.

Target fund size: CNY3.5 billion (max. from Facility = the smaller value between CNY1.75 billion or 50% of fund size)

Commitment from PICC: CNY1.75 billion

Minimum drawdown from PICC each call: CNY300 million

Minimum drawdown from PICC in 1st year after Fund launch: CNY500 million

Investment period: 5 years from the launch date of the Fund–committed money will be fully invested or PICC's remaining commitments will expire at the end of the investment period unless PICC agrees to an extension.

Reinvestment: Until the 8th anniversary of the Fund's launch date repaid principal will be reinvested not more than 6 months after it is received, or the portion representing PICC's investment will be repaid to PICC on the next semi-annual Repayment Date thereafter.

Final Repayment Date: All investments necessary to repay PICC's principal and a fixed return of __% must be liquidated, and money paid to PICC as provided in "Payments," below, by the 10th anniversary of the Fund's launch date unless PICC agrees to an extension.

Investment profile: The Fund will invest only in debt or put-protected[1] equity companies. The Fund may invest in companies in which CECEP or the Fund Manager has an interest in.

Investment restrictions: Investments of the Fund must be in companies and provided for the sole purpose of undertaking medium- to large-scale air emissions abatement projects using advanced or best available technology. Investment restrictions will include technology standards and minimum requirements for emissions reductions per dollar invested. Detailed investment restrictions will be as agreed with ADB. All companies receiving investments will be required to comply with ADB environmental, social, integrity, and other requirements and to report on their compliance.

Governance: The Fund will have an investment committee comprising Fund Manager senior investment personnel, technology experts selected by the Fund Manager, and senior

[1] Put-protected equity here means "debt as equity" or other equity investments where the Fund has a put to a creditworthy third-party.

management personnel from CECEP. Limited partners may attend investment committee meetings as non-voting participants. The Fund will be audited annually in accordance with ADB requirements.

Concentration limits: Fund investments in any one company will be limited to 20% of total Fund size.

Diversification requirements: At least one investment in each of the following technology fields: (1) agricultural waste utilization, (2) clean heating, (3) micro grid/rooftop electricity generation, and (4) wastewater/sludge treatment.

Repayment Dates: 30 June and 31 December in each year.

Payments to PICC: Interest and other returns to the Fund in excess of principal, returns of principal received by the Fund that are not reinvested within 6 months after receipt and returns of principal received by the Fund after the end of the reinvestment period will be applied: 1st to pay any taxes owing by the Fund; 2nd to pay the costs incurred in respect of any third party consultants or experts engaged by the Fund Manager; 3rd to pay Fund Manager's Fees; 4th to PICC until it receives a fixed return of ___% per annum on its principal investment; 5th to the Facility, the GP and any other investors until they have received a return of __% per annum on their principal investments; 6th to PICC until it has been repaid its principal in full; and 7th to the Facility, the GP and any other investors other than PICC until they have been repaid their principal investments in full. Amounts received by the Fund in excess of the amounts specified in the preceding sentence will be paid, after paying any taxes, consulting and experts' costs and Fund Manager's Fees, to the Facility, the GP and any other investors in proportion to their respective investment amounts.

Fund Manager Fees: PICC will pay to the Fund Manager fees of 0.5% per annum on amounts actually invested into the Fund, calculated from the date of PICC's provision of money to the Fund pursuant to a call until the date when the principal amount is returned to the investor by the Fund.

Calls on investor commitments: The Fund Manager may require PICC to provide money to the Fund, in proportion to their commitments to the Fund and in no event in excess of PICC's total commitments to the Fund, only as and when investments have been approved by the investment committee. The Fund Manager will give PICC not less than 30 days' notice to provide money to the Fund, specifying the date by which moneys must be provided. The Fund Manager will not require money to be provided more than 30 business days before it reasonably expects to provide the money to an investee.

Temporary Investments: All money temporarily held by the fund will be held in an interest-bearing bank account at, or money market product issued by, bank that provides entrusted bank services for the Fund, and interest will be paid out as describe in "Payments."

Annex 2: Discussion Draft for Local (Jinan) Fund

Investors: Industrial Bank (CIB), Jinan Finance Co. (Jinan), the ADB-provided Facility ("Facility"), and the General Partnership (GP)

Fund structure: Limited partnership

Fund manager and GP: CECEP Huayu Fund Management Co. Ltd. Except as specified in "Payments" below, all Fund costs and expenses will be borne by the Fund Manager.

Target fund size: CNY1 billion

Commitment from CIB: CNY500 million

Commitment from Jinan: CNY250 million

Commitment from Facility: CNY250 million

Investment period: 5 years from the launch date of the Fund**–**committed money will be fully invested or Investors' remaining commitments will expire at the end of the investment period unless all investors agree to an extension.

Reinvestment: Until the end of the investment period repaid principal will be reinvested not more than 6 months after it is received by the Fund or will be repaid to the investors as provided in "Payments," below, on the next semi-annual repayment date thereafter.

Final Repayment Date: All investments must be liquidated, and money paid as provided in "Payments," below, by the 7th anniversary of the Fund's launch date unless all investors agree to an extension.

Investment profile: The Fund will invest only debt or put-protected[1] equity in companies.

Investment restrictions: Investments of the Fund must be in companies, not less than 80% in Jinan, and provided for the sole purpose of undertaking medium- to large-scale air emissions abatement projects using advanced or best available technology. The Fund may not invest in companies in which CECEP or the Fund Manager has an interest. Investment restrictions will include technology standards and minimum requirements for emissions reductions per dollar invested. Detailed investment restrictions will be as agreed with ADB. All companies receiving investments will be required to comply with ADB environmental, social, integrity and other requirements and to report on their compliance.

Governance: The Fund will have an investment committee of five persons: two appointed by Fund Manager, one appointed by Jinan City government, one independent person selected by the investors, and one technical expert selected by the fund manager. Decisions will require the affirmative vote of four participants. Limited partners may attend investment committee meetings as non-voting participants. The Fund will be audited annually in accordance with ADB requirements.

[1] Put-protected equity here means "debt as equity" or other equity investments where the Fund has a put to a creditworthy third party.

Diversification requirements:_____________.

Repayment dates: ________________ in each year.

Payments:

1. Interest and other returns to the Fund in excess of principal will be applied: (i) 1st to pay any taxes owing by the Fund; (ii) 2nd to pay the costs incurred in respect of any third party consultants or experts engaged by the Fund Manager; (iii) 3rd to pay Fund Manager's Fees; (iv) 4th to CIB until it receives a fixed return of ___% per annum on its principal investment; and (v) 5th to the Facility, Jinan, the GP and any other investors in proportion to their respective investments.

2. Returns of principal received by the Fund that are not reinvested within 6 months after receipt and returns of principal received by the Fund after the end of the reinvestment period will be applied: 1st to CIB until it has been repaid its principal in full; and 2nd to the Facility, Jinan, the GP and any other investors other than CIB until they have been repaid their principal investments in full.

3. Amounts received by the Fund in excess of the amounts specified in the preceding paragraphs will be paid, after paying any taxes, consulting and experts' costs and Fund Manager's Fees, the Facility, the GP and any other investors until they to the Facility, Jinan, the GP and other investors other than CIB, in proportion to their respective investment amounts.

Fund Manager Fees: CIB and Jinan will pay to the Fund Manager fees of 0.5% per annum on amounts they actually invest into the Fund, calculated from the date of their provision of money to the Fund pursuant to a call until the date when the principal amount is returned to the investor by the Fund.

Calls on investor commitments: The Fund Manager may require investors to provide money to the Fund, in proportion to their commitments to the Fund and in no event in excess of their respective total commitments, only as and when investments have been approved by the investment committee. The Fund Manager will give investors not less than 30 days' notice to provide money to the Fund, specifying the date by which money must be provided. The Fund Manager will not require money to be provided more than 30 business days before it reasonably expects to provide the money to an investee.

Temporary Investments: All money temporarily held by the fund will be held in an interest-bearing bank account at, or money market product issued by, bank that provides entrusted bank services for the Fund, and interest will be paid out as describe in "Payments."

Annex 3: Discussion Draft for Technology/Industry Specified (Debt) Fund

Investors: Shanghai Pudong Development Bank (SPDB), Ansteel Group, ADB-provided Facility ("Facility"), and the General Partnership (GP)

Fund structure: Limited partnership

Fund manager and GP: CECEP Huayu Fund Management Co., Ltd. Except as specified in "Payments" below, all Fund costs and expenses will be borne by the Fund Manager.

Target fund size: CNY1.6 billion

Commitment from SPDB: CNY1.2 billion

Commitment from Ansteel: CNY100 million

Commitment from Facility: CNY300 million

Investment period: 5 years from the launch date of the Fund–committed moneys will be fully invested or Investors' remaining commitments will expire at the end of the investment period unless all investors agree to an extension.

Reinvestment: Until the end of the investment period repaid principal will be reinvested not more than 6 months after it is received by the Fund or will be repaid to the investors as provided in "Payments," below, on the next semi-annual repayment date thereafter.

Final Repayment Date: All investments must be liquidated, and money paid as provided in "Payments," below, by the 7th anniversary of the Fund's launch date unless all investors agree to an extension.

Investment profile: The Fund will invest debt in (i) Ansteel ESCO company, (ii) SPV's in which the Fund owns at least 50% of equity and Ansteel ESCO owns the remainder (and at minimum 1%), or (iii) in energy savings project host companies that have entered into energy savings performance contracts with the vehicles referred to in subclauses (i) or (ii). All equity invested by the Fund will be put-protected equity. The debt will be based on cash-flow based lending in reliance on cash flows from energy savings performance contracts between Ansteel ESCO company and energy savings project host companies.

Investment restrictions: Investments of the Fund must be provided for the sole purpose of undertaking air emissions abatement projects under energy savings performance contracts, using advanced or best available technology. The Fund may not invest in companies in which CECEP or the Fund Manager has an interest. Investment restrictions will include technology standards and minimum requirements for emissions reductions per dollar invested. Detailed investment restrictions will be as agreed with ADB. All companies receiving investments, and all energy savings project host companies, will be required to comply with ADB environmental, social, integrity and other requirements and to report on their compliance.

Governance: the Fund will have an investment committee of five persons: two appointed by Fund Manager, one appointed by Ansteel Group, one independent person selected by the other investors, and one technical expert selected by the fund manager. Decisions will require the affirmative vote of four participants. Limited partners may attend investment committee meetings as non-voting participants. The Fund will be audited annually in accordance with ADB requirements.

Repayment dates: _________________ in each year.

Payments:

1. Interest and other returns to the Fund in excess of principal will be applied: 1st to pay any taxes owing by the Fund; 2nd to pay the costs incurred in respect of any third-party consultants or experts engaged by the Fund Manager; 3rd to pay Fund Manager's Fees; 4th to SPDB until it receives a fixed return of ___% per annum on its principal investment; and 5th to the Facility, Ansteel Group, the GP and any other investors in proportion to their respective investments.

2. Returns of principal received by the Fund that are not reinvested within 6 months after receipt and returns of principal received by the Fund after the end of the reinvestment period will be applied: 1st to SPDB until it has been repaid its principal in full; and 2nd to the Facility, Ansteel Group, the GP and any other investors other than SPDB until they have been repaid their principal investments in full.

3. Amounts received by the Fund in excess of the amounts specified in the preceding paragraphs will be paid, after paying any taxes, consulting and experts' costs and Fund Manager's Fees, the Facility, the GP, and any other investors until they to the Facility, Ansteel Group, the GP, and other investors other than SPDB, in proportion to their respective investment amounts.

Fund Manager Fees: SPDB and Ansteel Group will pay to the Fund Manager fees of 0.5% per annum on amounts they actually invest into the Fund, calculated from the date of their provision of money to the Fund pursuant to a call until the date when the principal amount is returned to the investor by the Fund.

Calls on investor commitments: The Fund Manager may require investors to provide money to the Fund, in proportion to their commitments to the Fund and in no event in excess of their respective total commitments, only as and when investments have been approved by the investment committee. The Fund Manager will give investors not less than 30 days' notice to provide money to the Fund, specifying the date by which money must be provided. The Fund Manager will not require money to be provided more than 30 business days before it reasonably expects to provide the money to an investee.

Temporary Investments: All money temporarily held by the fund will be held in an interest-bearing bank account at, or money market product issued by, bank that provides entrusted bank services for the Fund, and interest will be paid out as describe in "Payments."