



GLAUCUS RESEARCH GROUP

格勞克斯研究

“When the well is dry, we know the worth of water.” - **Benjamin Franklin**

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COMPANY: CT Environmental Group Ltd. | HK: 1363
INDUSTRY: Wastewater Treatment

Price (as of
11/22/2016):
HKD 2.14

Market Cap:
HKD 13.52
billion

Daily Volume:
9 million shares
(avg. 3mo)

Glaucus
Valuation:
HKD 0.38



CT Environmental Group Ltd (HK: 1363) (“CTEG” or the “Company”) primarily engages in industrial wastewater treatment and hazardous waste disposal. In a crowded and heavily regulated industry where prices are typically set by the Chinese government, CTEG has reported margins far in excess of its competitors. It claims that its success is driven by its business model of building, owning and operating wastewater treatment facilities (the “BOO” model).

In this report, we present publicly available wastewater treatment data from the Chinese government which directly contradicts CTEG's reported wastewater treatment volumes at two of its primary facilities. In our opinion, this is clear and irrefutable evidence that the Company has lied to the investing public about the volume of water treated at its facilities and as a result, its reported revenues and profitability. This report also presents SAIC filings and other government records showing that, in our opinion, CTEG has engaged in undisclosed related party acquisitions of companies secretly connected to its Chairman. Shockingly, we have found evidence of intimate dealings with the former chairman of [China Metal Recycling](#), which Glaucus exposed as a fraud in 2013 (report available [here](#)) and which was subsequently [liquidated](#) by Hong Kong regulators.

When we consider the totality of the evidence, we conclude that the Company is materially misrepresenting its reported financial performance and that its management is so untrustworthy that CTEG is simply **uninvestable**. But to be conservative, we value CTEG's shares at HKD 0.38 per share, an 82% downside from the current share price. Given that CTEG's debt levels have ballooned to RMB 2.3 billion in 1H 2016, we believe that it is reasonable to expect even further downside pressure on the Company's shares.

- 1. Inflation of Reported Wastewater Treatment Volumes.** Because wastewater treatment is a highly regulated business, the Ministry of Environmental Protection (“MEP”) publishes an annual list of the volume of wastewater processed at key facilities in China. This data directly contradicts the Company's reported figures for the utilization of two key facilities.
 - a. Xintao.** CTEG's Guangzhou Xintao Industrial Park Treatment Facility (“Xintao”) is the Company's primary wastewater BOO facility, with total design capacity for wastewater treatment of 100,000m³ per day. CTEG claimed that Xintao operated at 97%, 99% and 100% capacity utilization in 2012, 2013 and 2014, respectively. But the MEP's [National Urban Sewage Treatment Facilities Lists](#) state unequivocally that the Xintao facility only processed 54,400m³ in average daily volume in [2012](#), [2013](#), and [2014](#), respectively. These lists are published annually, are unambiguous and are corroborated by other sources. In our opinion, the lists clearly indicate that the Company overstated the amount of wastewater processed at the Xintao facility by more than 82% from 2012-2014.
 - b. Yinglong.** MEP data shows a similar exaggeration of actual wastewater treatment volumes at another key facility, the Guangzhou Yinglong Wastewater Treatment Company Limited (“Yinglong”). Yinglong, also operated by CTEG using the BOO model, has a treatment capacity of 100,000m³ per day. CTEG disclosed that Yinglong operated at 73%, 80% and 90% capacity in 2012, 2013 and 2014, respectively. However, the MEP data states that Yinglong only treated 49,300m³ of wastewater per day in [2012](#), and only 53,800m³ in [2013](#) and [2014](#). This data indicates that CTEG overstated the amount of wastewater treated at the Yinglong facility by over 54% in those three years.
 - c. Profit Overstatement.** MEP data indicates that the Company significantly overstated the utilization rates and therefore the volume of water processed at its two key BOO facilities. Because CTEG's wastewater treatment segment from its BOO facilities is the Company's **primary driver of profitability**, we estimate that CTEG's gross profit from its BOO segment was **67% less than reported for that segment from 2012-2014**.

2. **Den of Thieves.** In 2013, Glaucus released a [report](#) alerting the market that according to MEP data, Hong Kong listed China Metal Recycling (HK: 0773) (“[CMR](#)”) was a blatant fraud that was fabricating its reported revenues and profits. In an unprecedented step, the SFC moved to force CMR into liquidation. Hong Kong courts agreed, saying there was “compelling evidence” that CMR had engaged in “[industrial scale fraud](#).” CMR was one of the most blatant and aggressive frauds in Hong Kong history. Imagine our surprise when we discovered that CMR’s Chairman, Chun Chi-Wai (“[Mr. Chun](#)”), was intimately involved in the foundation of CTEG. SAIC filings reveal that disgraced CMR Chairman Chun Chi-Wai was a **founding board member** of Xintao and Guangzhou Kaizhou, two of the Company’s three original PRC operating subsidiaries. In addition, CTEG’s Chairman Mr. Tsui Cham To (“[Chairman Tsui](#)”) was named as Mr. Chun’s business partner in CMR’s Global Offering and, among other things, purchased assets from CMR prior to CMR’s IPO. Such records suggest that CMR’s disgraced chairman was intimately involved in the construction of CTEG and that CTEG’s Chairman Tsui maintained close ties with the orchestrator of the one of the most notorious stock frauds in Hong Kong history.
3. **Inflated Purchase Price for Undisclosed Related Party Acquisitions.** In 2015, CTEG acquired 100% equity interests in three facilities for a total aggregate consideration of **RMB 276 million**. But this understates the cost to shareholders. The three acquired entities also carried on their books a total of **RMB 352 million in mysterious payables to undisclosed recipients**, meaning that it cost the Company **RMB 628 million to acquire three facilities**. CTEG claimed that in each case, the beneficial owners of the acquired entities were independent third parties. We believe that this is a lie. SAIC filings reveal that each of the entities was majority owned by Guangzhou Yingzhou Investment Co. Ltd. (“[Guangzhou Yingzhou](#)”), **an undisclosed related party which we believe is controlled by or connected to CTEG’s Chairman**. Worse still, SAIC filings show that undisclosed related party Guangzhou Yingzhou acquired all three entities for just **RMB 46 million one year before flipping them to CTEG at a 6x markup (or a 13.7x markup if the mysterious payables are included)**. Put simply, public records indicate that CTEG’s Chairman was connected to all three facilities which the Company acquired at a massive markup from an undisclosed related party, a clear violation of Hong Kong securities rules. In our view, these transactions either represent a naked transfer of wealth to the Chairman or are fake capital expenditures designed to mask fabricated profits.
4. **SAIC Filings Suggest Fabricated Financial Statements for Major Acquisition.** In April 2014, CTEG [acquired](#) Qingyuan Lvyou Environmental Protection Technology Company Limited (“[Qingyuan Lvyou](#)”), a company engaged in sludge and solid waste treatment, for RMB 125 million. The Company disclosed that Qingyuan Lvyou generated a loss in 2012 and net profits of RMB 11.9 million in 2013. Post-acquisition, the Company stated that Qingyuan Lvyou’s profitability skyrocketed, generating net profit of HKD 80 million in 2014. However, Qingyuan Lvyou SAIC filings reveal that it generated **a net loss of RMB 13.8 million in 2013, and only generated a net profit of RMB 27.2 million in 2014, 82% less than the aggregate profits reported to investors in those two years**.
5. **Entrusted Operations: Undisclosed Related Party Revenues.** In 2015, CTEG reported a mysterious new source of revenue which it labelled “entrusted operation services.” According to CTEG, this segment reported an EBITDA margin of 99.7% and accounted for 16% of the Company’s total FY 2015 EBITDA. Yet SAIC filings reveal that 49% of the revenue from “entrusted operation services” came from six entities which are ultimately owned by Guangzhou Yingzhou, the undisclosed related party which we believe is secretly connected to the Chairman. Given that the Company reports an inexplicable 99.7% EBITDA margin in this segment, that it failed to disclose such related party relationships calls into question the authenticity of such reported profits.
6. **Questionable Idle Land Purchase.** On November 25, 2013, Xintao successfully won land use rights at an auction for RMB 44 million. As a condition for purchasing the land, construction had to begin within 12 months after signing and construction had to be completed within 36 months after signing. Yet a Baidu map and site visit reveal that nearly three years after the signing date, Xintao has not begun construction on the property. Why would the Company take on debt to spend RMB 44 million in cash for a property that sits idle in violation of the land purchase contract?
7. **Incredible Profitability at Odds with Serial Capital Raising.** Wastewater treatment in China is a crowded and commoditized space, heavily regulated by the Chinese government. We would not expect a business like CTEG, without a technological advantage over its peers, to report financial performance which significantly deviates from its competitors. Yet in 2015, CTEG’s reported return-on-capital and net income margins figures were 127% and 108% greater, respectively, than an average of other Chinese wastewater treatment and disposal companies. This simply defies credibility. It is even more suspicious that despite such record profitability (net income margins between 33-46%), CTEG is still a serial capital raiser. CTEG’s supposed profitability has been squandered on capital expenditures and acquisitions of questionable authenticity, and since 2008, the Company has raised via equity and debt issuances a total of RMB 4.4 billion (RMB 3.5 billion since 2013). Like [China Metal Recycling](#), despite supposedly generating consistent and world-beating profit margins which bear no resemblance to the economics of its competitors, CTEG repeatedly returns to the capital markets to raise money. In our experience, this is a tell-tale sign of fabricated financial statements.

VALUATION

In this report, we present publicly available evidence, which in our opinion, indicates that CTEG has significantly inflated the utilization rate of its primary BOO water treatment facilities. For its primary Xintao facility, the Company has claimed that it operates near 100% utilization. Yet MEP data indicates it operated at 54% utilization in 2012, 2013 and 2014 (the most recent year for which we have MEP data).

The BOO segment is the driver of CTEG's supposed superior profitability (relative to its peers) and the primary component in the sell-side valuation of the Company's stock. Yet the MEP data indicates such supposed profitability is a mirage. This makes sense given that the Company is a serial capital raiser despite its inexplicable financial performance.

Additional evidence suggests that the Company is violating Hong Kong securities rules and exaggerating its reported financial performance. SAIC filings indicate that the Company fabricated the financial performance of a recent acquisition. SAIC filings also indicate that several of the Company's recent acquisitions, which included mysterious payables on top of the reported aggregate consideration, were from an undisclosed related party.

When we consider the totality of the evidence, we conclude that the Company is materially misrepresenting its reported financial performance and that its management is so untrustworthy that CTEG is simply **uninvestable**.

But in an effort to be conservative, we prepared an estimated valuation. Based on the MEP data and other evidence presented in this report, we estimate that CTEG's actual revenues are at least 30% less than reported. We also believe, based on the evidence, that at best, CTEG is just another player in a crowded, commoditized space littered by thousands of other companies. Accordingly, in our valuation, we normalized the Company's EBIT margins to match its peers. Rather than using the Company's reported 52% EBIT margins (which we believe are fabricated), our valuation uses a blended average EBIT margin of 28% generated by other Chinese wastewater treatment and waste disposal companies in 2015.

Simply normalizing CTEG's EBIT margins implies a significant downside in the price of its shares. By applying a blended P/E ratio of its peers, and applying a 25% corruption discount, we value CTEG's shares at HKD 0.38 per share, an 82% downside from the current stock price.

P/E		
Company Name	Ticker	P/E (ttm)
Beijing Enterprise Water Group	371.HK	16.46
Kangda Int'l Environmental Gr	6136.HK	9.23
China Everbright Int'l	257.HK	17.81
Tianjin Capital Envir'l Prot Gr	1065.HK	14.25
Dongjiang Environmental	895.HK	26.09
Yunnan Water	6839.HK	12.93
	Average	16.13
CT Environmental - Implied Price	1363.HK	0.51
Corruption Discount		25%
Glaucus Valuation		0.38
Current Price		2.14
% Downside		-82%

Source: Bloomberg; Glaucus Estimates

But we believe that even this valuation is too generous to CTEG, given the evidence that the Company has materially deceived investors about its financial performance. In addition, CTEG's 1H 2016 debt balance has ballooned to RMB 2.3 billion. We believe that such debt levels are problematic if, as we believe, the Company is much less profitable than it claims. Ultimately, while we conservatively value CTEG's shares at HKD 0.38 per share, given its debt levels and the scale of misrepresentations to investors and regulators, there is a reasonable probability of further downside to the Company's shares.



INFLATION OF REPORTED WASTEWATER TREATMENT VOLUMES

CTEG's business model is to process wastewater into clean water and resell the reclaimed water to public or private users. This requires large initial capital expenditures to build treatment, processing and disposal facilities. Accordingly, companies in this space generate sustained profitability when their expensive facilities are operating at a high capacity utilization rate.

Wastewater treatment is a commoditized industry in which the Chinese government typically regulates pricing. It is also fiercely competitive, crowded with players undifferentiated by basic technologies. In China, by the end of 2014, there were 4,436 operating urban sewage treatment facilities with a total design capacity of 171 million cubic meters per day and real processing volume of 135 million cubic meters per day.¹

Despite this difficult operating environment, CTEG has attracted investors with its industry-leading margins. The Company claims that its reported profitability is generated by its Build-Own-Operate ("BOO") business model. From 2010 through 2012, CTEG reported that its BOO segment generated **87% of the Company's total reported gross profits**. Prices for wastewater processed by a BOO facility are not typically set by the Chinese government, allowing the Company to charge a higher price on its services.² In theory, this could lead to higher profit margins **if** the Company's water treatment facilities operated at or near full capacity, as CTEG claims.

1) XINTAO

CTEG's Guangzhou Xintao Industrial Park Treatment Facility ("Xintao") is a wastewater treatment plant and the Company's primary BOO facility during the pre-IPO track record period, with total design capacity for wastewater treatment of 100,000 m³ per day.

CTEG reported that the Xintao facility's wastewater treatment services accounted for 69% (RMB 486 million) of the Company's aggregate gross profits during the track record period from 2010 through 2012.

Gross Profits

<i>Figures in HK\$'000</i>	2010	2011	2012	Cumulative
BOO projects gross profit	153,996	233,712	227,594	615,302
BOT projects gross profit	33,029	33,237	24,801	91,067
Total	187,025	266,949	252,395	706,369
BOO contribution to Gross Profits	82%	88%	90%	87%
BOT contribution to gross profits	18%	12%	10%	13%

Gross Profits Specific to Guangzhou Xintao WWT Services (incl. above in BOO projects)	122,478	184,926	178,553	485,957
As % of Total Gross Profit	65%	69%	71%	69%

Source: CTEG Prospectus, p. 8

During the track record period, the Company attracted investor interest by highlighting the success of its BOO model and specifically the superior financial performance of the Xintao wastewater treatment facility.

CTEG's wastewater treatment revenue generation is dependent on (i) the volume of water treated, and (ii) the average price of water treated. CTEG disclosed in its Global Offering that Xintao processed an average 97,364m³ of wastewater per day in 2012,³ achieving a 97.4% capacity utilization rate.

¹ http://www.mep.gov.cn/gkml/hbb/bgg/201506/t20150609_303209.htm

² Daiwa Initiation Report.

³ CTEG Global Offering, p. 4.

Guangzhou Xintao Volume of Wastewater Treated 2010 - 2012

Wastewater Treatment					
Total Designed Capacity (m ³ per day)	Constructed Capacity as of December 31, 2012 ⁽²⁾ (m ³ per day)	Utilized capacity as of December 31, 2012 ⁽³⁾ (m ³ per day)	Utilization Rate ⁽⁴⁾	Average daily volume of wastewater treated for year 2012 (m ³)	Volume of wastewater treated for the three financial years ended December 31, 2012 (m ³)
100,000	100,000	103,974	104% ⁽⁶⁾	97,364	28,743,338 (2010) 34,447,949 (2011) 35,635,380 (2012)

Source: CTEG Prospectus, p. 4

We believe that this was a blatant lie.

Because wastewater treatment is a highly regulated business, the Chinese Ministry of Environmental Protection (“MEP”) publishes an annual list on its website of the volume of wastewater processed at urban sewage treatment facilities around China.

On April 24, 2013, the MEP [announced](#) that in 2012 there were a total of 3,836 urban sewage treatment facilities in the PRC, with average daily treatment capacity of 116 million cubic meters.

中华人民共和国环境保护部
Ministry of Environmental Protection of the People's Republic of China

Index No.: 2013-00253
Classification: Environmental Protection Information/ Pollution Cap Control
Publish Entity: MEP
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File No.: 关于公布2012年全国城镇污水处理设施名单的公告
文 号: 公告 2013 年 第27号
生成日期: 2013年04月24日
File Generation Date: April 24, 2013
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Key Words: Announcement of MEP

Announcement on the Disclosure of the 2012 Nationwide Urban Sewage Treatment Facilities
公告 2013 年 第27号
Announcement 2013 No.27

关于公布2012年全国城镇污水处理设施名单的公告

为督促城镇污水处理设施的正常运行，现将全国已建成投运的城镇污水处理设施名单予以公告。2012年，全国投运的城镇污水处理设施共3836座，总设计处理能力1.49亿立方米/日，平均日处理水量1.16亿立方米。

请各级环保部门切实加强重点减排工程的监督检查，确保稳定运行，同时请新闻媒体和社会各界予以监督。

电话：(010) 66556239
邮箱: zlb@mep.gov.cn
附件: 全国投运城镇污水处理设施清单

Attachment: List of Nationwide Urban Sewage Treatment Facilities

To better supervise and improve the normal operation of urban sewage treatment facilities nationwide, we hereby publish the List of Nationwide Urban Sewage Treatment Facilities. In 2012, there are 3836 such facilities in operation with total design capacity of 149 million cubic meters per day and average processing volume of 116 million cubic meters per day.

MEP
环境保护部
2013年4月24日

Source: [MEP Announcement April 24, 2013](#)

This same announcement included a link to a detailed list of treatment facilities published by the MEP. Below is an excerpt from the [2012 MEP National Urban Sewage Treatment Facilities List](#) which states that Xintao’s average daily volume of treated wastewater was 54,400m³ in 2012.

2014 MEP Facilities List

List of Nationwide Urban Sewage Treatment Facilities - 2014

全国投运城镇污水处理设施清单 (2014)

No.	Province	City	Project Name	Major Processing Tech.	Operate since...	Design Capacity	Average Processing
序号	省份	市(区、地、州)	项目名称	主体处理工艺	投运时间	设计处理能力 (万立方米/日) Unit: 10000 cubic meter/day	平均处理水量 (万立方米/日)
3052	广东	广州市	广州市番禺区东涌工业污水处理站	二级生化	1992年10月	3.00	0.83
3053	广东	广州市	联合环境水处理(广州南沙)有限公司	MBR	2007年6月	0.60	0.20
3054	广东	广州市	广州发展新塘水务有限公司(原旺隆污水处理厂)	卡鲁塞尔氧化沟	2006年8月	10.00	5.38
3055	Guangdong	Guangzhou	Guangzhou Xintao	Two-stage biochemistry	2004年5月	10.00	5.44
3056	广东	广州市	石井污水处理厂	A ² O	2010年9月	15.00	8.52

Source: <http://www.mep.gov.cn/gkml/hbb/bgg/201506/W020150609575919731164.pdf>

The table below illustrates the discrepancy between the MEP data and the Company's reported average daily volume of wastewater treated at Xintao. On average, from 2012 through 2014, MEP data indicates that CTEG overstated its Xintao average daily volume treated by 82%.

MEP DATA - Daily Processing Volume for Xintao

	2012	2013	2014	AVERAGE
Reported Capacity per day (m ³)	100,000	100,000	100,000	100,000
Utilization Rate	97%	99%	100%	99%
Implied Daily Production Volume (m ³)	97,364	99,000	100,000	98,788
MEP Reported Annual Processing Volume (m³)	54,400	54,400	54,400	54,400
Difference (m³)	42,964	44,600	45,600	44,388
% Overstatement	79%	82%	84%	82%

Sources:

1. CTEG Prospectus
2. Daiwa Initiation Report, p. 8
3. 2012, 2013 and 2014 MEP Data

The MEP data on the actual wastewater treatment volumes at Xintao is corroborated by additional **independent** PRC government and industry websites. First, the [Guangdong Environmental Protection Bureau](#) discloses that in the first nine months of 2014, the actual average daily volume of wastewater treated at Xintao was 51,000m³, a utilization rate of 51% and slightly below the 54% reported by the MEP for the entire calendar year of 2014.

2014 Jan-Sep Nationwide Key Wastewater information disclosure									
2014年1-9月全国集中式污水处理厂信息公开表									
		Designed Cap.		Actual Processed Volume		COD		NH ₃ -N	
		设计处理规模	实际处理量	cod执行排放标准	cod监督性监测最大值	cod监督性监测平均值	氨氮执行排放标准		
43	37	广东省广州市增城市	高滩污水处理厂	0.3	0.25	40	35	21.36	5
44	38	广东省广州市增城市	广州新滔水质净化有限公司	10	5.1	90	60	33.29	10
45	39	广东省广州市增城市	永和污水处理厂	10	10.25	40	31.17	25.52	5
46	40	广东省广州市增城市	石滩污水处理厂	5	2.46	40		24.71	5
47	41	广东省广州市增城市	新塘污水处理厂	10	10	40	285	21.75	5
48	42	广东省广州市增城市	增城荔城污水处理厂	5	10.111	40		25.25	8
49	43	广东省广州市增城市	广州盈隆污水处理有限公司	10		90			10
50	44	广东省广州市从化市	从化市温泉镇污水处理厂	1	0.33	40	21.3	15.3	8
51	45	广东省广州市从化市	从化市太平镇污水处理厂	2	0.81	40	33.6	28.3	8
52	46	广东省广州市从化市	从化市良口镇污水处理厂	1.1	0.24	40	28	22.3	8
53	47	广东省广州市从化市	从化市中心城区生活污水处理厂	5	2.29	40	30	28.6	8

Source: [Guangdong Environmental Protection Bureau](#)

Additionally, an [article](#) published in 2014 by [Dewater](#), an industry website, states that Xintao's average daily volume of treated wastewater was 54,400m³.

广州新滔水质净化有限公司

Guangzhou Xintao

<http://www.dowater.com>

时间: 2014-9-24

中国污水处理工程网



污水处理设施鸟瞰图

Guangzhou Xintao is a subsidiary of CT Environmental Group. It locates in Guangzhou, with a daily design capacity of 100,000 cubic meter.

广州新滔水质净化有限公司隶属于中滔环保集团，坐落于广东广州市，设计处理能力为日处理污水10.00万立方米。主要建设内容包括厂区土建施工，工艺设备、工艺管道安装，电气、自控系统安装，照明，防雷接地，采暖，通风，厂区道路施工及绿化等。厂

Avg. volume of treated water is 54,400 m³ per day 入运行以来，污水处理设备运转良好，日

平均处理污水量为5.44万立方米。该项目采用先进的污水处理设备，厂区主体工艺采用二级生化处理工艺。广州新滔水质净化有限公司建成后极大地改善了城市水环境，对治理污染，保护当地流域水质和生态平衡具有十分重要的作用，同时对改善广州市的投资环境，实现广州市经济社会可持续发展具有积极的推进作用。

Source: [Dowater.com](http://www.dowater.com) September 24, 2014 article

These two independent sources, one a government website and the other an industry website, corroborate the MEP data and indicate that Xintao's actual utilization rate was less than 55% in 2013 and 2014. This data directly contradicts the Company's reported utilization rate for the Xintao facility in those years.

2) Yinglong

MEP data shows a similar exaggeration of wastewater treatment volumes at Guangzhou Yinglong Wastewater Treatment Company Limited (“Yinglong”), another wastewater treatment facility operated by CTEG using the BOO model.

The Yinglong facility was acquired in 2012 by CTEG, and in the MEP lists it is referred to by its former name, Guangzhou Development Xintang Water Service Company Limited (“Xintang Water”). As disclosed in the Company’s Global Offering, CTEG acquired the facility from Xintang Water in 2012.

HISTORY AND REORGANIZATION

Pursuant to the Cooperation Agreement, Guangzhou Xintao, Xintang Environmental and Mr. Lu agreed to form a project company to be owned by them as to 46%, 49% and 5%, respectively, for the purpose of bidding for the Yinglong Project and ultimately owning the Yinglong Project. As the project company had not been formed at the time of the tender process, the parties agreed to bid for the Yinglong Project using Guangzhou Xintao to participate in the tender process for the Yinglong Project on behalf of the project company. Pursuant to the Cooperation Agreement, if Guangzhou Xintao wins the bid for the Yinglong Project, it shall transfer the Yinglong Project to the project company.

On November 2, 2011, Guangzhou Xintao successfully won the bid for the Yinglong Project for a total consideration of RMB222.6 million, and on November 15, 2011, Guangzhou Xintao entered into a wastewater treatment project transfer agreement (the “Project Agreement”) with Xintang Water. Pursuant to the Project Agreement, Guangzhou Xintao is required, within nine months after taking over the Yinglong Project, to commence operating phase two of the Yinglong Project with a designed capacity of 150,000 m³ and to comply with the relevant municipal, provincial and national compliance standards. Completion of the transfer of the Yinglong Project from Xintang Water was conditional upon satisfaction of certain conditions precedent. Before completing the transfer in March 2012, the Yinglong Project was owned and operated by Xintang Water.

On March 1, 2012, the transfer of the Yinglong Project by Xintang Water to Guangzhou Xintao was completed after satisfaction of the conditions precedent. On the same date, Guangzhou Xintao

Source: CTEG Prospectus, p. 102

CTEG disclosed in its Global Offering that Yinglong processed an average 72,681m³ of wastewater per day in 2012.

Project	Location	Project Model	Estimated/ Actual Total Investment Amount ⁽¹⁾ (RMB in millions)	Percentage of ownership by our Group	Industry	Description	Wastewater Treatment					
							Total Designed Capacity (m ³ per day)	Constructed Capacity as of December 31, 2012 ⁽²⁾ (m ³ per day)	Utilized capacity as of December 31, 2012 ⁽³⁾ (m ³ per day)	Utilization Rate ⁽⁴⁾	Average daily volume of wastewater treated for year 2012 (m ³)	Volume of wastewater treated for the three financial years ended December 31, 2012 (m ³)
Yinglong Project – Phase I ⁽⁵⁾⁽¹⁰⁾	Zengcheng city	BOO	238.4	46%	Textile	Industrial wastewater treatment	100,000	100,000	86,095	86%	72,681 ⁽¹¹⁾	24,348,017 (2012)

Source: CTEG Prospectus, p. 4

However, the [2012 MEP list](#) states that Yinglong’s average daily volume of treated wastewater was only 49,300m³. This directly contradicts the Company’s reported utilization rate for this facility and indicates that CTEG exaggerated the volume of wastewater treated by the Yinglong facility by 47%. Note that MEP lists refer to Yinglong by its previous name, Xintang Water.

2012 MEP Facilities List

List of Nationwide Urban Sewage Treatment Facilities - 2012

全国投运城镇污水处理设施清单 (2012)

No.	Province	City	Project Name	Major Processing Tech.	Operate Since...	Design Capacity	Average Processing Vol
序号	省份	市(区、地、州)	项目名称	主体处理工艺	投运时间	设计处理能力 (万立方米/日)	平均处理水量 (万立方米/日)
2690	广东	广州市	从化水质净化厂	A ² /O	2008年1月	1.60	0.92
2691	广东	广州市	广州开发区水质净化管理中心九龙水质净化一厂	氧化沟	2010年6月	0.50	0.26
2692	广东	广州市	联合环境水处理(广州南沙)有限公司	MBR	2007年6月	0.60	0.20
2693	广东	广州市	广州发展新塘水务有限公司(旺隆污水处理厂)	卡鲁赛尔氧化沟	2006年8月	10.00	4.93
2694	广东	广州市	广州新滔水质净化有限公司	CEAO	2004年5月	10.00	5.44

Source: <http://www.mep.gov.cn/gkml/hbb/bgg/201305/W020130508476747765965.pdf>

Subsequently, the Company disclosed to sell-side analysts that Yinglong's capacity utilization was 80% and 90% in 2013 and 2014, respectively.⁵ However, the [2013 MEP list](#) and [2014 MEP list](#) reveal that Yinglong's average daily volumes remained flat at 53,800m³ in both years, implying that **CTEG overstated the volume of wastewater treated by Yinglong by 49% and 67% in 2013 and 2014**, respectively.

2013 MEP Facilities List

List of Nationwide Urban Sewage Treatment Facilities - 2013

全国投运城镇污水处理设施清单 (2013)

No.	Province	City	Project Name	Major Processing Tech.	Operate since...	Design Capacity	Avg Processing Vol
序号	省份	市(区、地、州)	项目名称	主体处理工艺	投运时间	设计处理能力 (万立方米/日)	平均处理水量 (万立方米/日)
2848	广东	广州市	大坦沙污水处理厂	A ² /O	1989年1月	55.00	54.45
2849	广东	广州市	大沙地污水处理厂(广州市污水处理有限责任公司)	改良A ² /O	2009年1月	20.00	13.05
2850	广东	广州市	竹料污水处理厂	改良A ² /O	2009年8月	3.00	1.51
2851	广东	广州市	广州新白云国际机场污水处理站	A ² /O	2004年8月	2.80	0.95
2852	广东	广州市	南沙污水处理厂	A ² /O	2006年7月	10.00	4.39
2853	广东	广州市	广州开发区西区水质净化厂	活性污泥法	1999年1月	7.50	4.38
2854	广东	广州市	广州开发区永和水质净化厂	CASS	2009年3月	5.50	3.05
2855	广东	广州市	从化水质净化厂	A ² /O	2008年1月	1.60	0.92
2856	广东	广州市	广州开发区水质净化管理中心九龙水质净化一厂	氧化沟	2010年6月	0.50	0.26
2857	广东	广州市	东华工业区污水处理站	生物膜法	2007年6月	0.50	0.16
2858	广东	广州市	广州市番禺区东涌工业污水处理站	二级生化	1992年10月	3.00	0.83
2859	广东	广州市	联合环境水处理(广州南沙)有限公司	MBR	2007年6月	0.60	0.20
2860	广东	广州市	广州发展新塘水务有限公司(原旺隆污水处理厂)	卡鲁赛尔氧化沟	2006年8月	10.00	5.38
2861	广东	广州市	广州新滔水质净化有限公司	二级生化	2004年5月	10.00	5.44

Guangdong Guangzhou Xintang Water (Wanglong Water) Carrousel Oxidation Ditch August, 2006

Source: <http://www.mep.gov.cn/gkml/hbb/bgg/201404/W020140415399348916037.pdf>⁵ Daiwa Initiation Report, p. 8; ICBC Initiation Report, p. 12.

2014 MEP Facilities List

List of Nationwide Urban Sewage Treatment Facilities - 2014

全国投运城镇污水处理设施清单 (2014)

No.	Province	City	Project Name	Major Processing Tech.	Operate since...	Design Capacity	Avg. Processing Vol
序号	省份	市(区、地、州)	项目名称	主体处理工艺	投运时间	设计处理能力 (万立方米/日) Unit: 10000 cubic meter/day	平均处理水量 (万立方米/日)
3052	广东	广州市	广州市番禺区东涌工业污水处理站	二级生化	1992年10月	3.00	0.83
3053	广东	广州市	联合环境水处理(广州南沙)有限公司	MBR	2007年6月	0.60	0.20
3054	广东	广州市	广州发展新塘水务有限公司(原旺隆污水处理) Xintang Water (Wanglong Water) Carrousel Oxidation Ditch	卡鲁塞尔氧化沟	2006年8月 August, 2006	10.00	5.38
3055	广东	广州市	广州新滔水质净化有限公司	二级生化	2004年5月	10.00	5.44
3056	广东	广州市	石井污水处理厂	A/O	2010年9月	15.00	8.52

Source: <http://www.mep.gov.cn/gkml/hbb/bgg/201506/W020150609575919731164.pdf>

The table below illustrates the discrepancy between the Company's claims and the MEP data regarding the average daily volume of waste water treated at Yinglong. On average, from 2012 through 2014, this data indicates that CTEG overstated its Yinglong average daily volume treated by 54%.

MEP DATA - Daily Processing Volume for Yinglong

	2012	2013	2014	AVERAGE
Reported Capacity per day (m ³)	100,000	100,000	100,000	100,000
Utilization Rate	73%	80%	90%	81%
Implied Daily Production Volume (m ³)	72,681	80,000	90,000	80,894
MEP Reported Annual Processing Volume (m³)	49,300	53,800	53,800	52,300
Difference (m³)	23,381	26,200	36,200	28,594
% Overstatement	47%	49%	67%	54%

Sources:

1. CTEG Prospectus
2. Daiwa Initiation Report, ICBC
3. 2012, 2013 and 2014 MEP Data

Like Xintao, the MEP data for Yinglong is corroborated by an independent source. In this case, an article on the industry website Dowater.com, published in September 2014, confirms that the average daily volume of water treated at the Yinglong (again referred to by its previous name Xintang Water) was 53,800 cubic meters per day.

广州发展新塘水务有限公司(旺隆污水处理厂)

Xintang Water

<http://www.dowater.com> 时间: 2014-9-24 中国污水处理工程网



Xintang Water locates in Guangzhou, with a daily design capacity of 100,000 cubic meter

广州发展新塘水务有限公司(旺隆污水处理厂), 坐落于广东广州市, 设计处理能力为日处理污水10.00万立方米。主要建设内容包括厂区土建施工, 工艺设备、工艺管道安

Xintang Water operated since Aug 2006 and its average daily treated volume is 53,800 cubic meter

州发展新塘水务有限公司(旺隆污水处理厂)自2006年8月正式投入运行以来, 污水处理设备运转良好, 日平均处理污水量为5.38万立方米。该项目采用先进的污水处理设备, 厂区主体工艺采用卡鲁赛尔氧化沟处理工艺。广州发展新塘水务有限公司(旺隆污水处理厂)建成后极大地改善了城市水环境, 对治理污染, 保护当地流域水质和生态平衡具有十分重要的作用, 同时对改善广州市的投资环境, 实现广州市经济社会可持续发展具有积极的推进作用。

Source: [Dowater.com](http://www.dowater.com) September 24, 2014 article

This industry source stated that Yinglong was operating at 54% capacity, well below the 80-90% capacity claimed by the Company.

In examining the credibility of the MEP data, we compared other publicly listed companies and found that overall, the MEP data tracked the claimed utilization of their facilities.⁶

First, we examined Hong Kong listed Beijing Enterprises Water Group Limited (HK 0371) (“Beijing Water”). We compared Beijing Water’s claimed utilization rate for its PRC based wastewater treatment facilities with the utilization rates from the MEP data. The MEP data matched Beijing Water’s claims, almost perfectly.

⁶ MEP data was not available for all of Beijing Water’s or Kangda’s facilities, so we compared the claimed overall utilization rates with the MEP utilization rates for facilities for which data was available. In the case of Beijing Water, this represented roughly half of its overall capacity and its major facilities, so we believe that the MEP data was sufficient to give a representative sample to measure Beijing Water’s overall utilization rate. For Kangda, we likewise found MEP data for roughly 55% of its facilities, including its major projects, which we believe is a sufficient number to analyze Kangda’s claimed utilization rates against the data set.

MEP DATA - Daily Processing Volume for Beijing Enterprises Water Gr

	2011	2012	2013	2014	Average
Company Reported Utilization Rate	67%	68%	71%	82%	72%
MEP Utilization Rate	60%	67%	79%	84%	72%
Difference	7%	1%	-8%	-2%	-1%
% Overstatement	12%	1%	-11%	-2%	-1%

Source : 2011-2014 MEP data, company filings

We found the same pattern with respect to Kangda International Environmental Co Ltd (HK: 6136), another Hong Kong listed wastewater treatment company (“Kangda”). Data was only available for comparison in 2012 and 2013, during Kangda’s track record period. But the MEP data matched the utilization rates claimed in Kangda’s public offering.

MEP DATA - Daily Processing Volume for Kangda Int'l Environmental Gr

	2012	2013	Average
Company Reported Utilization Rate	97%	98%	97%
MEP Utilization Rate	94%	95%	95%
Difference	2%	3%	2%
% Overstatement	2%	3%	2%

Source : 2012-2013 MEP data, company filings

MEP data largely conforms to the utilization rates reported by two other Hong Kong companies, Beijing Water and Kangda, increasing our conviction in the accuracy of the data set.

3) Profit Overstatement

MEP data indicates that the Company significantly overstated the utilization rates and therefore the volume of wastewater processed at its two key BOO facilities. Because CTEG’s wastewater treatment segment from its BOO facilities is the Company’s **primary driver of profitability**, the impact of the Company’s misrepresentations is severe.

Using the utilization rates from the MEP data and average estimated tariffs obtained from sell side analysts, we have estimated what we believe to be the amount of revenues overstated by the Company at each of its key facilities. We calculate that the Company overstated its Xintao facility revenue by RMB 268 million between 2012-2014, and overstated Yinglong facility revenues by RMB 128 million over that same period.

Revenue Overstatement - Xintao

RMB'000	2012	2013	2014	Total
Reported Capacity per day (m ³)	100,000	100,000	100,000	300,000
Utilization Rate	97%	99%	100%	99%
Implied Daily Production Volume (m ³)	97,368	99,000	100,000	296,368
MEP Reported Annual Processing Volume (m³)	54,400	54,400	54,400	163,200
Δ Volume (m³)	42,968	44,600	45,600	133,168
Average Tariff (RMB)	5.2	5.5	5.8	5.5
Δ Revenue/year	81,553	89,535	96,535	267,623

Source: CTEG Prospectus, Daiwa Initiation Report, 2012-2014 MEP data, Glaucus estimates

Revenue Overstatement - Yinglong

RMB'000	2012	2013	2014	Total
Reported Capacity per day (m ³)	100,000	100,000	100,000	300,000
Utilization Rate	73%	80%	90%	81%
Implied Daily Production Volume (m ³)	72,681	80,000	90,000	242,681
MEP Reported Annual Processing Volume (m³)	49,300	53,800	53,800	156,900
Δ Volume (m³)	23,381	26,200	36,200	85,781
Average Tariff (RMB)	4.0	4.1	4.1	4.1
Δ Revenue/year	34,136	39,208	54,173	127,518

Source: CTEG Prospectus, Daiwa Initiation Report, 2012-2014 MEP data, Glaucus estimates

Based on these estimated tariff rates and the MEP data, we calculate that the Company's actual BOO revenue was **52% less** than reported from 2012-2014.⁷

Estimated Overstatement of Revenues in BOO Segment

<i>RMB'000</i>	2012	2013	2014	Total
Total Revenue	312,204	384,307	818,116	1,514,627
BOO Revenue	197,452	211,929	353,084	762,466
Glaucus Estimated BOO Revenue Based on MEP Data	81,763	83,187	202,376	367,325
% Difference	-59%	-61%	-43%	-52%

Source: Company Filings, CTEG Prospectus, p. 8, Guosen Securities, 2012-2014 MEP data, Glaucus estimates

Simply estimating the overstated revenue does not capture the extent to which we believe that the Company has misrepresented its financial performance. The Company's BOO sector was responsible for 64% of CTEG's reported gross profit from 2012 through 2014.

To estimate how much of CTEG's profits were overstated at its key BOO facilities, we make a key assumption. We assume that the Company reported accurate COGS and that the fabricated revenues were added directly to reported gross profits. **Based on our assumption, we estimate that CTEG's gross profit from its BOO segment was 67% less than reported for that segment from 2012-2014.**

Estimated Overstatement of Gross Profit

<i>RMB'000</i>	2012	2013	2014	Total
Total Gross Profit	205,309	242,642	461,290	909,241
BOO Gross Profit	151,834	162,974	271,522	586,330
Glaucus Estimated BOO Gross Profit Based on MEP Data	36,145	34,231	120,813	191,189
% Difference	-76%	-79%	-56%	-67%

Source: Company Filings, CTEG Prospectus, p. 8, Guosen Securities, 2012-2014 MEP data, Glaucus estimates

Ultimately, we believe that the MEP data clearly indicates that the Company overstated the volume of wastewater treated at its key BOO facilities and that as such, CTEG's gross profits were significantly overstated.

⁷ We exclude 2015 from this analysis because we do not have MEP data for this year, but we believe that the Company continued to materially misrepresent the performance of its BOO business in these years.

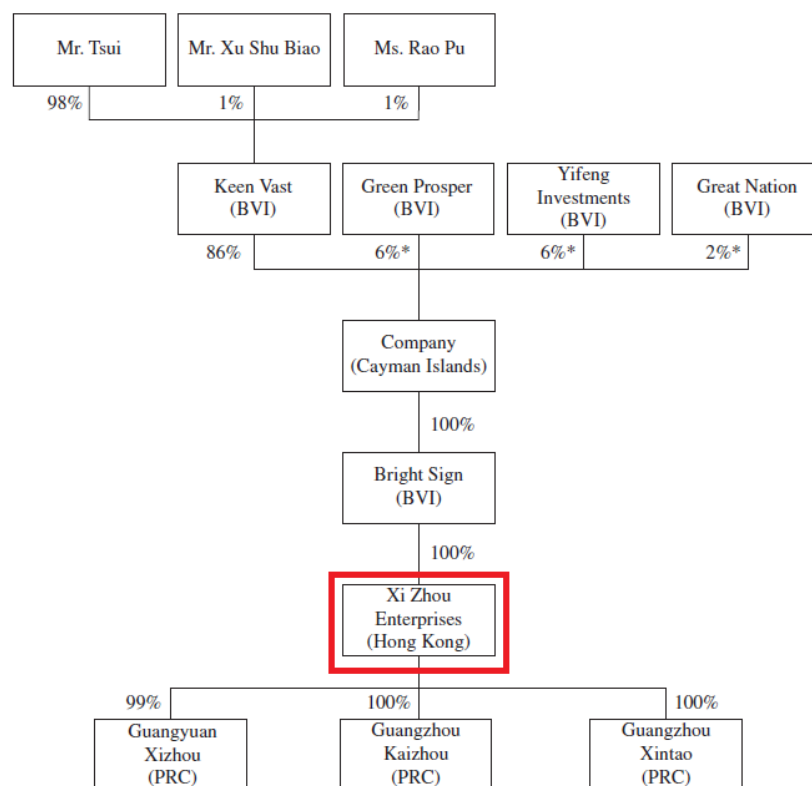
DEN OF THIEVES

On January 28, 2013, Glaucus released a [report](#) alerting the market that according to MEP data (the same source as the data presented in this report), Hong Kong listed China Metal Recycling (HK: 0773) (“[CMR](#)”) was a blatant fraud that was fabricating its reported revenues and profits.

In an unprecedented step, on July 29, 2013, the [Securities and Futures Commission \(“SFC”\)](#) moved to force CMR into liquidation. Hong Kong courts agreed, saying that there was “compelling evidence” that CMR had engaged in “[industrial scale fraud.](#)” On August 12, 2013, Bloomberg reported that [Hong Kong police arrested the CMR Chairman](#) along with his wife and two other officers of the disgraced company.

CMR was one of the most blatant and aggressive frauds in Hong Kong history. Imagine our surprise when we discovered evidence that CMR’s Chairman, Chun Chi-Wai, was intimately involved in the formation of CTEG.

Xi Zhou Enterprises (Hong Kong) (“[Xi Zhou](#)”) is a Company subsidiary which serves as the Hong Kong holding company for [all](#) CTEG’s PRC subsidiaries. It is obviously a significant entity within CTEG’s corporate structure. We can safely infer that the actions of Xi Zhou are ultimately directed by Chairman Tsui Cham To (“[Chairman Tsui](#)”).



Source: CTEG Prospectus, p. 106

SAIC filings reveal that Mr. Chun Chi-Wai (“[Mr. Chun](#)”), the disgraced former Chairman of CMR, was appointed by Xi Zhou as a founding board member of CTEG’s critical PRC subsidiary, Xintao.

Guangzhou Xintao Board Member Detail

附件一

广州新涛水质净化有限公司 公司董事成员、经理情况

根据本公司章程第 五章第十三条规定, 董事会成员由 乙 方 方 方 方委派, 共 三 人, 以下所列人员符合国家行

Name (Signature)	Gender	Nationality	Term	Position	Address	ID Number	产生方式
姓名 (亲笔签名)	性别	国籍	任职期限	职务	住所	身份证	
Tsui Cham To	男	中国香港	三年	董事长兼书记	增城市新塘镇西洲村17号	[REDACTED]	选举
Chun Chi-Wai	男	China	3 years	Vice Chairman	香港甘密道118号1601室	[REDACTED]	选举
Xu Shu Biao	男	中国	三年	董事兼书记	广东省增城市新塘镇西洲村西 定前街二巷1号	[REDACTED]	选举

Source: Xintao SAIC Filings

外商投资企业登记注册表 (三) Foreign Invested Enterprise Registration Form

(申请人填写)

Chairman on board 董事长	名	徐湛滔 Tsui Cham To	国籍	加拿大
	住址	增城市新塘镇西洲村17号	电话号码	82609677
Vice chairman 副董事长	名	秦志威 Chun Chi-Wai	国籍	中国
	住址	香港甘密道118号1601室	电话号码	82609677
副董事长	姓名		国籍	
	住址		电话号码	
Executive Director 董事	名	徐树标 Xu Shu Biao	国籍	中国
	住址	增城市新塘镇西洲村西定前街二巷1号	电话号码	82609677
董事	姓名		国籍	
	住址		电话号码	
董事	姓名	Company stamp of Xizhou Enterprise HK	国籍	
	住址		电话号码	
董事	姓名		国籍	
	住址		电话号码	

Source: Xintao SAIC Filings

Similarly, Mr. Chun was also the founding member of another CTEG PRC subsidiary, Guangzhou Kaizhou (“Kaizhou”).

Guangzhou Kaizhou Board Member Detail

附件一: 广州凯洲自来水有限公司 公司董事成员、经理情况

根据本公司章程第五十二条规定, 董事会成员由 方、 方、 方、 方委派, 共 人, 以下所列人员符合国家有关法律、行政法规

Name (Signature)	姓名 (亲笔签名)	Gender	Nationality	Term	生 待	Position	Address	ID Number	产生方式
Chun Chi-Wai		Male	China	3 years	执行董事	香港干诺道中118号1601室			自任
徐子裕		Male	China	三年	董事	广东省广州市天河区...			自任

Xizhou Enterprise HK Stamp

Source: Guangzhou Kaizhou SAIC Filings

The relationship appears to be so intimate that CTEG’s Chairman Tsui was mentioned in CMR’s Global Offering as Mr. Chun’s business partner. The listing document also discloses that Chairman Tsui purchased assets from CMR as part of CMR’s reorganization during its pre-IPO period.

the Track Record Period, Asia Wing Tat was principally engaged in the trading of scrap metals, and it has ceased its operation and became inactive after we disposed of our interest in Asia Huan Bao. Longmen had no active business during the Track Record Period. As Asia Huan Bao, Asia Wing Tat and Longmen had insignificant profit contribution to our Group during the Track Record Period, Asia Huan Bao (being the holding company of Asia Wing Tat) and Longmen were respectively disposed of to Mr. Chun Chi-wai and To Kee Holdings Limited (a company wholly owned by Mr. Tsui Cham To (“Mr. Tsui”)) in December 2006 and June 2007, respectively as part of the Reorganisation.

During the Track Record Period, Mr. Tsui was (i) a business partner of Mr. Chun Chi-wai, (ii) a shareholder of Huan Bao Steel holding approximately 0.01% interest in Huan Bao Steel which was subsequently transferred to Asia Steel (H.K.) on 5 August 2005 and (iii) a shareholder of Asia Steel (Holdings) holding 48% interest in Asia Steel (Holdings) which was subsequently transferred to Mr. Chun Chi-wai on 29 June 2007. Prior to leaving our Group, Mr. Tsui held various non-executive directorships in Guangzhou Asia Steel, Yangzhong Yagang, Central Steel Macau, Huan Bao Steel and Guangzhou Zhujiang Port. Mr. Tsui ceased all such directorships in August 2007 and did not hold any executive positions in our Group during the Track Record Period.

Source: China Metal Recycling Prospectus, p. 94

Such records suggest that CMR’s disgraced chairman was intimately involved in the construction of CTEG and that CTEG’s Chairman Tsui maintained close ties with a blatant stock fraudster. Such intimacy with a man arrested for orchestrating one of Hong Kong’s most notorious stock frauds is a major red flag for investors. In our opinion, this relationship bolsters the credibility of the evidence in this report that CTEG is similarly misrepresenting its financial performance to investors.

INFLATED PURCHASE PRICES FOR UNDISCLOSED RELATED PARTY ACQUISITIONS

In 2015, CTEG acquired 100% equity interests in three facilities for a total aggregate consideration of RMB 276 million. CTEG claimed that in each case, the beneficial owners of the acquired entities were independent third parties. We believe that this is a lie. SAIC filings reveal that each of the three entities was owned by **an undisclosed related party secretly connected to CTEG's Chairman.**

Worse still, **SAIC filings show that undisclosed related party Guangzhou Yingzhou acquired all three entities for just RMB 46 million one year before flipping them to CTEG at a 6x markup.** Records indicate that Guangzhou Yingzhou was incorporated only weeks before the first transaction, which to us indicates that the entity was formed simply to serve as a related party middleman to mark up the value of acquired facilities.

Put simply, the records indicate that CTEG's Chairman was connected to all three facilities which the Company acquired at a massive markup from an undisclosed related party, a clear violation of Hong Kong securities rules. In our view, these transactions either represent a naked transfer of wealth to the Chairman or are fake capital expenditures designed to mask fabricated profits.

a. Ganghui Huanbao Acquisition.

In November 2015, CTEG subsidiary Xintao acquired 100% equity interest in Ganghui Environmental Sewage Treatment Co. Ltd. (also known as Foshan Shunde Ganghui Wastewater Treatment Company) ("**Ganghui Huanbao**"), for a total consideration of **RMB 73 million**. In public filings, CTEG's **claimed** that all Ganghui Huanbao's ultimate beneficial owners were independent third parties.

Principal terms of the two agreements are set out below:

THE SHUNDE ASSET OPERATION AGREEMENT

Date: 23 September 2014

Parties: (i) **Guangzhou Xintao, a subsidiary of the Group** and
(ii) **Ganghui Environmental** which together with its ultimate beneficial owner(s), to the best of the knowledge, information and belief of the Directors and after making all reasonable enquiries, **are third parties independent of the Company** and its connected persons.

Source: <http://www.hkexnews.hk/listedco/listconews/SEHK/2014/0924/LTN20140924183.pdf>

We believe that this is a lie. Below is a screenshot from the SAIC website which discloses that Company subsidiary Xintao is the current shareholder of Ganghui Huanbao.

登记信息	备案信息	动产抵押登记信息	股权出质登记信息	行政处罚信息	经营异常信息	严重违法失信信息	抽查检查信息
Unified Social Credit Identifier 基本信息							
统一社会信用代码	91440606745549911F			Ganghui Huanbao			
Registration Number 注册号	440681000244396			Company Name 名称 佛山市顺德区港汇环保污水处理有限公司			
类型	有限责任公司(法人独资)			Legal Rep 法定代表人 刘光辉 Guanghui Liu			
Registration Capital 注册资本	300万人民币 3M RMB			Incorporation Date 成立日期 2002年12月18日 12/18/2002			
经营场所	佛山市顺德区均安镇畅兴工业园均益路188号						
Operating Since 营业期限自	2002年12月18日 12/18/2002			Operating Until 营业期限至 长期 Long-term			
Operating Scope 经营范围	承接: 污水处理、环保工程。= Sewage treatment, environmental engineering (依法须经批准的项目, 经相关部门批准后方可开展经营活动)=						
Registration Bureau 登记机关	佛山市顺德区市场监督管理局 Market Supervision Administration of Fo Shan			Approval Date 核准日期 2016年01月04日 01/04/2016			
Registration Status 登记状态	存续 On-going						

Shareholder Information 股东信息				
Shareholder Type 股东类型	Shareholder 股东	License Type 证照/证件类型	License Number 证照/证件号码	Details 详情
企业法人	广州新滔水质净化有限公司	营业执照		详情
Enterprise Legal Person	Guangzhou Xintao Wastewater Treatment Company	Business License		<< 1/1 >>

Amendment Information 变更信息			
Amendment 变更事项	Before Amendment 变更前内容	After Amendment 变更后内容	Amendment Date 变更日期
Corporate Shareholder 法人股东	查看变更前资料	查看变更后资料	2016年01月04日
Corporate Shareholder 法人股东	查看变更前资料	查看变更后资料	2014年09月19日
Legal Rep 法定代表人	苏德强 Deqiang Su	刘光辉 Guanghui Liu	2014年09月19日



Ganghui Huanbao
佛山市顺德区港汇环保污水处理有限公司 注册号: 440681000244396

Shareholder Info (after amendment) 股东信息 (变更后)	
Shareholder Name 股东名称	证照号
广州新滔水质净化有限公司 Guangzhou Xintao	9144*****2E

Source: <http://gsxt.gdgs.gov.cn/aiccips/index>

However, shareholder history available in the amendment history section of Ganghui Huanbao's SAIC filings reveal that the Company purchased Ganghui Huanbao from Guangzhou Yingzhou Investment Co. Ltd. ("Guangzhou Yingzhou").

Amendment 变更信息			
变更事项	变更前内容	变更后内容	变更日期
其他部门 Institutional Shareholder	法人股东	查看变更前资料	查看变更后资料
	法人股东	查看变更前资料	View details after amendment 查看变更后资料
法定代表人	苏德强	刘光辉	2014年09月19日

Shareholder Information After Amendment 股东信息(变更后)	
Shareholder Name 股东名称	License Number 证照号
广州盈洲投资有限公司 Guangzhou Yingzhou Investment Co.,Ltd	4401*****80

Source: <http://gsxt.gdgs.gov.cn/aiccips/index>

Guangzhou Yingzhou is the key to understanding the related party connections between the Chairman and CTEG's recent acquisitions. SAIC filings indicate that Guangzhou Yingzhou was only incorporated on July 29, 2014, just a few weeks before it acquired Ganghui Huanbao.

①

Letter of Consent for Registration of Company

准予设立(开业)登记通知书

穗工商(增)内设字【2014】第25201407220075号

广州盈洲投资有限公司 Guangzhou Yingzhou

我局于 二〇一四年七月二十九日 核准你公司(企业)登记设立,具体登记事项及
备案内容如下: Registration of Guangzhou Yingzhou is approved on 7/29/2014

登记事项

注册号: 440125000152480

住所(主要经营场所): 广州市增城新塘镇牛仔路173号

法定代表人(负责人): 刘光辉

主营项目类别: 商务服务业

经营范围: 一般经营项目:

1:企业自有资金投资;2:投资管理服务;

许可经营项目:

经营期限: 二〇一四年七月二十九日 至

注册资本: 1,000.0000(万元)

股东或者发起人情况:

Shareholders : Shuiman Wu, Guanghui Liu

吴水满

刘光辉

Guangzhou Administration Bureau for
Industry and Commerce - Zengcheng City

广州市工商行政管理局增城分局

二〇一四年七月二十九日

重要提示: 本次申请行为纳入信用监管体系

1. 根据《广州市商事登记制度改革实施办法》规定,企业领取了本通知书及营业执照后,可从事一般经营项目活动。企业从事许可经营项目的,应当取得许可证或者其他批准文件,方可从事经营活动。
2. 商事登记机关仅登记企业认缴的注册资本,不再登记注册资本实缴情况。营业执照不记载商事主体情况,企业对其申报备案的实收资本真实性负责。
3. 商事主体的章程、经营场所、年度报告、许可审批等信息,在广州市商事主体信息公示平台(网址: <http://cri.gz.gov.cn>)公示。
4. 本次申请行为纳入信用监管体系。

Source: Guangzhou Yingzhou SAIC Filings

SAIC filings reveal that the nominal shareholders of Guangzhou Yingzhou are two individuals, Mr. Shuiman Wu and Mr. Guanghui Liu.

登记信息	备案信息	动产抵押登记信息	股权出质登记信息	行政处罚信息	经营异常信息	严重违法失信信息	抽查检查信息
基本信息							
Unified Social Credit Identifier 统一社会信用代码	914401833045951544			Guangzhou Yingzhou Investment Co.,Ltd			
Registration Number 注册号	440125000152480			Company Name 名称	广州盈洲投资有限公司		
类型	有限责任公司(自然人投资或控股)			Legal Rep 法定代表人	刘光辉 Guanghui Liu		
Registration Capital 注册资本	1000万 10M RMB			Incorporation Date 成立日期	2014年07月29日 07/29/2014		
经营场所	广州市增城新塘镇牛仔路173号						
Operating Since 营业期限自	2014年07月29日 07/29/2014			Operating Until 营业期限至	长期 Long-term		
Operating Scope 经营范围	企业自有资金投资;投资管理服务;房屋建筑工程施工;建筑工程后期装饰、装修和清理;室内装饰、装修;工程环保设施施工;建筑工程、土木工程技术服务;建筑工程、土木工程技术咨询;园林绿化工程服务;绿化管理、养护、病虫害防治服务; (依法须经批准的项目,经相关部门批准后方可开展经营活动)≡						
Registration Bureau 登记机关	广州市工商行政管理局增城分局			Approval Date 核准日期	2016年02月19日 02/19/2016		
Registration Status 登记状态	存续 On-going						
Shareholder Information							
股东信息							
股东的出资信息截止2014年2月28日。2014年2月28日之后工商只公示股东姓名,其他出资信息由企业自行公示。							
Shareholder Type 股东类型	Shareholder 股东	License Type 证照/证件类型	License Number 证照/证件号码	Details 详情			
Individual Shareholder 自然人股东	吴水满 Shuiman Wu		不公示 N/A	详情			
Individual Shareholder 自然人股东	刘光辉 Guanghui Liu		不公示 N/A	详情			

Source: <http://gsxt.gdgs.gov.cn/aiccips/index>

Mr. Guanghui Liu is listed as the board supervisor of Guangzhou Xintao Credit Guarantee Company (“Xintao Credit”), which is owned by CTEG’s Chairman and his cousin. Records indicate that CTEG’s Chairman Tsui was Xintao Credit’s legal representative.



全国企业信用信息公示系统 (广东)

[全国首页](#) [地方局首页](#)

Guangzhou Xintao Credit Guarantee Company

广州市信滔信用担保有限公司 注册号/统一社会信用代码: 914401017519911678



Management 主要人员信息					
序号	姓名 Name	职务 Position	序号	姓名 Name	职务 Position
1	刘光辉 Guanghui Liu	监事 Board Supervisor		郑睿 Rui Zheng	董事长兼总经理 Chairman and Managing Director
3	杜道洪 Daohong Du	董事 Director	4	梁涂奎 Gankui Liang	董事 Director
5	徐树标 Shubiao Xu	董事 Director	6	徐炬文 Juwen Xu	董事 Director

<< 1/1 >>

Source: <http://gsxt.gdgs.gov.cn/aiccips/index>

SAIC filings also reveal that a shareholder of Xintao Credit is Guangzhou To Kee Enterprises Development Group Limited (“To Kee Enterprises”), an entity owned by CTEG’s Chairman and his cousin.

As at the date of the Acquisition Agreement, Guangzhou To Kee is owned as to 89.63% by Mr. Tsui Cham To, an executive Director. Guangzhou To Kee is therefore a connected person of the Company and the acquisition of the Target Company by the Group constituted a connected transaction for the Company. As all the applicable percentage ratios (as defined in the Listing Rules) in respect of the acquisition is less than 5%, the acquisition was only subject to the reporting and announcement requirements and was exempt from the circular, independent financial advice and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

於收購日期，廣州滔記由執行董事徐湛滔先生擁有89.63%權益。廣州滔記因而為本公司之關連人士，而收購事項構成本公司之關連交易，而目標公司之收購事項構成本公司之關連交易。由於有關收購目標公司之所有適用百分比率（定義見上市規則）低於5%，根據上市規則第14A章，收購事項僅須遵守申報及公告之規定，並獲豁免遵守刊發通函、獨立財務意見及獨立股東批准之規定。

Source: 2015 company filings, p 53

登記信息	備案信息	動產抵押登記信息	股權出質登記信息	行政處罰信息	經營異常信息	严重违法失信信息	抽查檢查信息
基本信息							
Unified Social Credit Identifier 统一社会信用代码 914401017519911678							
Registration Number 注册号 440101000074900		Company Name 名称 Guangzhou Xintao Credit Guarantee Company 广州市信滔信用担保有限公司					
类型 其他有限责任公司		Legal Rep 法定代表人 郑睿 Rui Zheng					
Registration Capital 注册资本 10000万 100M RMB		Incorporation Date 成立日期 2003年07月09日 07/09/2003					
经营场所 广州市增城新塘镇港口大道321号A幢17层							
Operating Since 营业期限自 2003年07月09日 07/09/2003		Operating Until 营业期限至 长期 Long-term					
Operating Scope 经营范围 担保服务（融资性担保除外）；企业财务咨询服务；企业管理咨询服务；商品信息咨询；投资咨询服务；（依法须经批准的项目，经相关部门批准后方可开展经营活动）							
Registration Bureau 登记机关 广州市工商行政管理局		Approval Date 核准日期 2016年03月09日 3/9/2016					
Registration Status 登记状态 存续 On-going Administration for Industry and Commerce of Zhong Shan							

Shareholder Information 股东信息				
Shareholder Type 股东类型	Shareholder 股东	License Type 证照/证件类型	License Number 证照/证件号码	Details 详情
Institutional Shareholder 法人股东	广州市滔记实业发展集团有限公司	Guangzhou To Kee Enterprises Development Group Limited		详情
自然人股东	梁途奎		不公示 N/A	详情
法人股东	广州荔新投资有限公司			详情
Individual Shareholder 自然人股东	徐炬文 Juwen Xu		不公示 N/A	详情

Source: <http://gsxt.gdgs.gov.cn/aiccips/index>

In another direct connection, SAIC filings reveal that To Kee Enterprises, owned by CTEG's Chairman, is the landlord of Guangzhou Yingzhou.

Lease Agreement

场地租赁协议书

13

First Party 甲方: 广州滔记实业发展集团有限公司 Guangzhou To Kee Enterprises Development Group

Second Party 乙方: 刘光辉 Guanghui Liu

甲方提供位于增城市新塘镇牛仔路 173 号的商铺租赁给乙方使用, 现
双方就有关租赁事宜达成如下协议, 望双方共同信守。 To Kee Enterprises leases a commercial real estate at
Cowboy Road 173, Xintang to Guanghui Liu

- 一. 租用期从 2014 年 7 月 15 日至 2019 年 6 月 30 日止, 为期五年,
租金为每年人民币柒仟贰佰元正。 Leasing term (5 year) starts from 07/15/2014 to
06/30/2019 with annual rental payment of RMB 7,200
- 二. 乙方租赁场地经营项目由工商部门核定, 有关合法开业手续由乙
方自行到有关部门办理, 所涉及的税费由乙方支付, 与甲方无关。
- 三. 乙方应于签订合同后一次性缴纳第一年租金, 以后每年 6 月 30
日前一次性交付下一年度租金给甲方。逾期未交清部分按每天千之
五计收滞纳金。
- 四. 乙方租赁期间所产生的一切费用及所发生的一切经营问题由乙
方负责, 与甲方无关。
- 五. 本协议未尽事宜, 双方本着友好协作原则协商解决。本协议一式
两份, 甲乙双方各执一份, 自签订之日起生效。

Signature

甲方签字:



Guangzhou To
Kee Enterprises
Development
Group

乙方签字:

Guanghui Liu

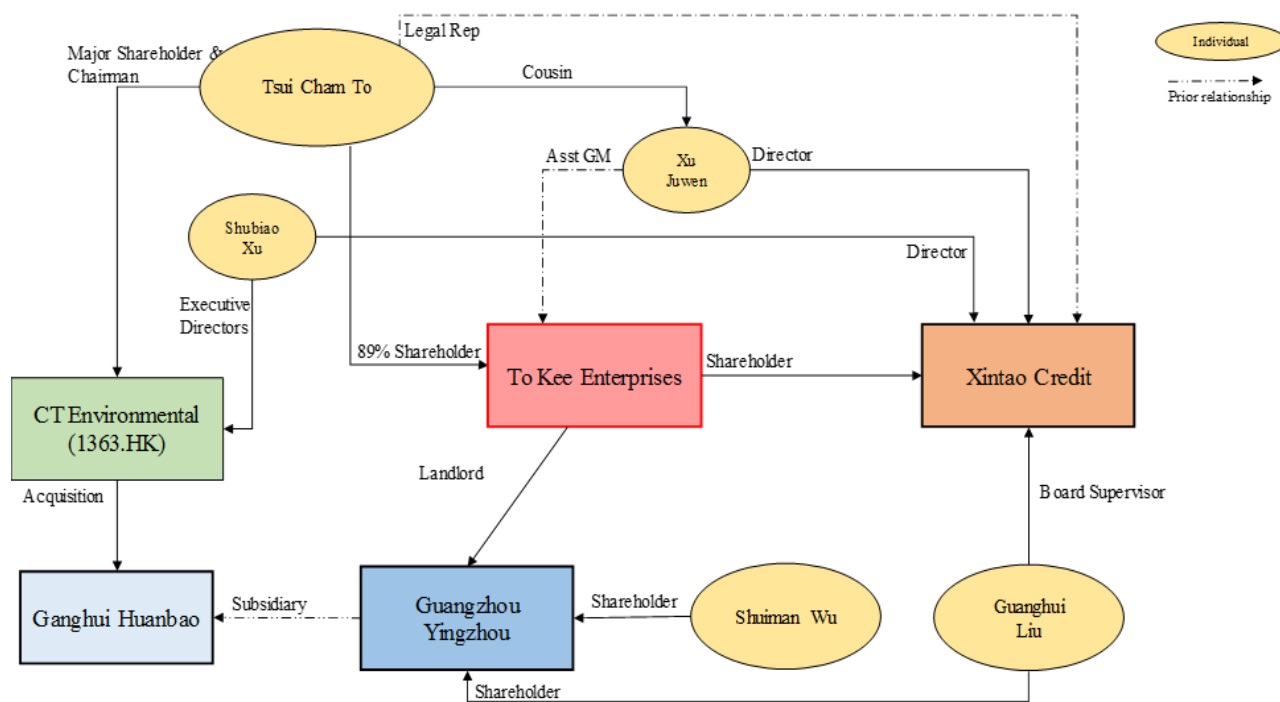
此复印件与原件相符

签订日期: 二〇一四年七月十五日

07/15/2014

Source: Guangzhou Yingzhou SAIC filings

Chairman Tsui is an owner of two shell companies. The first, Xintao Credit, employs Guangzhou Yingzhou's shareholder as a board supervisor. The second, To Kee Enterprises, is Guangzhou Yingzhou's landlord. The connection is clear. Below, we prepared a structure chart showing the links between the Chairman, Guangzhou Yingzhou and the facility acquired by the Company.



Guangzhou Yingzhou’s landlord, To Kee Enterprises, is an entity 89% owned by CTEG’s Chairman Tsui. Its shareholder is the board supervisor of a different entity owned and controlled by CTEG’s Chairman and his cousin. Accordingly, we believe that Guangzhou Yingzhou is clearly a connected party.

We believe that the Company concealed this information because records indicate that CTEG inflated the purchase price of Ganghui Huanbao and the other entities acquired from undisclosed related party Guangzhou Yingzhou.

CTEG reported that the total acquisition consideration for Ganghui Huanbao was **RMB 73 million**. Because CTEG inherited the entity’s RMB 149 million in payables to an unnamed party, **the true cost of acquisition was RMB 222 million!**

(b) Acquisition of subsidiaries (Continued)

(v) Ganghui Huanbao

The principal activities of Ganghui Huanbao are provision of wastewater treatment services in the PRC. In November 2015, the Group acquired 100% equity interests in Ganghui Huanbao for a consideration of RMB25,000,000. The acquisition was considered as a business combination.

The following summarizes the nature of consideration transferred, and the recognised amounts of assets acquired and liabilities assumed at the acquisition date:

(b) 收購附屬公司(續)

(v) 港匯環保

港匯環保之主要業務為於中國提供污水處理服務。於二零一五年十一月，本集團以代價人民幣25,000,000元收購港匯環保100%股本權益。該收購被視為業務合併。

以下概述所轉讓的代價之性質，以及於收購日期所收購資產及所承擔負債之已確認金額：

		Carrying amount	Fair value adjustments	Recognised values on acquisition
	Note	RMB'000	RMB'000	RMB'000
	附註	人民幣千元	人民幣千元	人民幣千元
Property, plant and equipment	物業、廠房及設備	128,872	—	128,872
Construction in progress	在建工程	918	—	918
Lease prepayments	租賃預付款項	5,026	4,974	10,000
Intangible assets	無形資產	—	16,000	16,000
Inventories	存貨	174	—	174
Trade and other receivables	貿易及其他應收款項	63,723	—	63,723
Cash and cash equivalents	現金及現金等價物	2,241	—	2,241
Trade and other payables	貿易及其他應付款項	(148,615)	—	(148,615)
Deferred tax liabilities	遞延稅項負債	—	(5,244)	(5,244)
Net identifiable assets	可識別資產淨值	52,339	15,730	68,069
Cash consideration	現金代價			25,000
Settlement of pre-existing relationship	前期合作關係終止			47,948
Total consideration	總代價			72,948
Goodwill	商譽	12		4,879
Analysis of cash flow:	現金流量分析:			
Cash consideration	現金代價			25,000
Less: cash acquired	減: 所收購現金			(2,241)
Net cash outflow for acquisition of Ganghui Huanbao for the year ended 31 December 2015	截至二零一五年十二月三十一日止年度收購港匯環保之現金流出淨值			22,759

Source: CTEG 2015 Annual Report, p. 124

SAIC filings suggest that this price was significantly inflated. First, SAIC filings show that Guangzhou Yingzhou bought Ganghui Huanbao for RMB 25 million in September 2014.

907

Decision of shareholders meeting of Ganghui Huanbao
佛山市顺德区港汇环保污水处理有限公司股东会决议

会议时间：2014年9月10日 Time of meeting: 9/10/2014

会议地点：本公司会议室

会议性质：临时会议

本次股东会已于会议召开前十五天通知了全体股东。

通知股东参加会议的方式是：电话通知

会议召集人：苏德强

会议主持人：苏德强

应到会股东人数：3人 实际到会股东人数：3人

出席会议的股东有：苏德强、杨建林、李秀贞

列席会议的新股东有：广州盈洲投资有限公司

佛山市港汇环保污水处理有限公司股东会会议于2014年9月10日在本公司会议室召开。出席本次会议的股东代表100%的股份，所做出决议经全体股东所持表决权的100%通过。

根据《公司法》及本公司章程的有关规定，本次会议表决通过：

- 一、同意原股东苏德强将其持有的本公司35%的股份，原价105万元，以875万元的转让价格转让给广州盈洲投资有限公司，批准了苏德强与广州盈洲投资有限公司签订的股权转让合同，其他股东放弃对该部分股权的优先购买权；
- 二、同意杨建林将其持有的本公司35%的股份，原价105万元，以875万元的转让价格转让给广州盈洲投资有限公司，批准了杨建林与广州盈洲投资有限公司签订的股权转让合同，其他股东放弃对该部分股权的优先购买权；
- 三、同意李秀贞将其持有的本公司30%的股份，原价90万元，以750万元的转让价格转让给广州盈洲投资有限公司，批准了李秀贞与广州盈洲投资有限公司签订的股权转让合同，其他股东放弃对该部分股权的优先购买权；
- 四、股权转让后股东的出资情况为：
广州盈洲投资有限公司，出资300万元，占本公司注册资本的100%。出资方式为货币资金。 **Guangzhou Yingzhou acquired 100% of Ganghui Huanbao for RMB 25M**
- 五、同意广州盈洲投资有限公司作为本公司的唯一股东，公司性质变更为法人独资公司；
- 六、同意免去苏德强法定代表人、执行董事、经理职务，同意免去杨建林公

NO. E 00008313000000000000001006-7-502674-20161012

Source: Ganghui Huanbao SAIC Filings

Strangely, SAIC filings reveal that Guangzhou Yingzhou then sold Ganghui Huanbao to the Company in December 2015 for a purchase price of only **RMB 3 million**, which is **96%** less than CTEG reported in 2015 company filings!

Ganghui Huanbao

007

Decision of Shareholders Meeting

佛山市顺德区港汇环保污水处理有限公司

股东决定书

佛山市顺德区港汇环保污水处理有限公司股东于 2015 年 12 月 15 日作出决定，决定内容符合《中华人民共和国公司法》及本公司章程的有关规定，内容如下：

一、同意原股东广州盈洲投资有限公司将占公司注册资本 100% 的股权，共人民币 300 万元以人民币 300 万元转让给广州新滔水质净化有限公司。

Guangzhou Xintao acquired 100% of Ganghui Huanbao from Guangzhou Yingzhou for RMB 3 million, approved by shareholders of Ganghui Huanbao

公司股权变更后各股东的出资情况如下：

股东 1 姓名（名称）：广州新滔水质净化有限公司，以货币认缴出资人民币 300 万元（实缴人民币 300 万元），在 2015 年 12 月 15 日已缴足，占公司注册资本 100%。

二、同意刘光辉继续担任执行董事（法定代表人）、经理，同意吴水满继续担任监事。

三、同意就上述决议事项重新制定公司章程。

四、会议决定委托卜嘉豪到佛山市顺德区市场监督管理局办理本公司的工商变更登记手续。

股东：广州盈洲投资有限公司

Shareholder: Guangzhou Yingzhou

法定代表人：

Legal Rep: Guanghui Liu

新股东：广州新滔水质净化有限公司

New Shareholder: Guangzhou Xintao

法定代表人：

2015年12月15日
12/15/2015

NO. E 000083130000000000000001007-7-502674-20161012

Source: Ganghui Huanbao SAIC filings

If the true cost of the acquisition was only RMB 3 million, SAIC filings indicate that the Company **fabricated over RMB 70 million in acquisition costs**. Given the evidence that the Company acquired Ganghui Huanbao from an undisclosed related party connected to the Chairman, in our opinion, this evidence of overpayment suggests that insiders used an inflated purchase price to loot the Company.

b. Zhongtuo Kailan Acquisition.

In November 2015, CTEG also acquired 100% equity interest in Zhongshan Zhongtuo Kailan Industry Co., Ltd. (“Zhongtuo Kailan”) for a total consideration of RMB 116 million. In CTEG’s public filings, the Company claimed that all of the Zhongtuo Kailan’s ultimate beneficial owners were independent third parties. Again, we believe that this is a lie.

THE ZHONGSHAN ASSET OPERATION AGREEMENT

Date: 23 September 2014

Parties: (i) Guangzhou Xintao, a subsidiary of the Group and
(ii) Zhongshan Industrial which together with its ultimate beneficial owner(s), to the best of the knowledge, information and belief of the Directors and after making all reasonable enquiries, are third parties independent of the Company and its connected persons.

“Zhongshan Industrial” 中山市中拓凱藍實業有限公司 (Zhongshan City Zhong Tuo Kai Lan Industrial Limited)

Source: <http://www.hkexnews.hk/listedco/listconews/SEHK/2014/0923/LTN20140923853.pdf>

SAIC filings reveal that Zhongtuo Kailan was (and continues to be) owned by **Guangzhou Yingzhou**, the entity secretly connected to the Chairman. Investors should find alarming that in 12 months, a Company acquisition is still registered to its sellers. Perhaps the Company has not bothered to update the shareholder registration because, as discussed extensively in the previous section, evidence indicates that the seller, Guangzhou Yingzhou, is an undisclosed related party secretly connected to Chairman Tsui through a series of shell companies.

登记信息	备案信息	动产抵押登记信息	股权出质登记信息	行政处罚信息	经营异常信息	严重违法失信信息	抽查检查信息
基本信息							
Unified Social Credit Identifier 统一社会信用代码 91442000773076058P							
Registration Number 注册号	442000000080266	Zhongshan Hailan Water Resource Development Co., Ltd		Company Name 名称 中山市海蓝水资源开发有限公司			
类型	有限责任公司(法人独资)	Legal Rep 法定代表人		吴水漪 Shuiman Wu			
Registration Capital 注册资本	2000万人民币元 20M RMB	Incorporation Date 成立日期	2005年04月04日 04/04/2005				
经营场所	中山市民众镇沙仔村藪农沙围民三工业区沙仔工业园						
Operating Since 营业期限自	2005年04月04日 04/04/2005	Operating Until 营业期限至	长期 Long-term				
Operating Scope 经营范围	水资源开发；生活污水及印染废水处理及净化；销售：污水处理设备；工业供水。（依法须经批准的项目，经相关部门批准后方可开展经营活动。） Water resources development; wastewater treatment and purification; sewage treatment equipment; industrial water supply.						
Registration Bureau 登记机关	中山市工商行政管理局 Administration for Industry and Commerce of Zhong Shan	Approval Date 核准日期	2016年04月27日 04/27/2016				
Registration Status 登记状态	存续 On-going						
Shareholder Information							
股东信息							
股东的出资信息截止2014年2月28日。2014年2月28日之后工商只公示股东姓名，其他出资信息由企业自行公示。							
股东类型 Shareholder Type	股东 Shareholder	证照/证件类型 License Type	证照/证件号码 License Number	详情 Details			
企业法人	广州盈洲投资有限公司 Guangzhou Yingzhou Investment Co., Ltd	营业执照 Business License	440125000152480	详情			
<< 1/1 >>							
变更信息							
Amendment Information							
变更事项 Amendment	变更前内容 Before Amendment	变更后内容 After Amendment		变更日期 Amendment Date			
企业名称 Company Name	中山市中拓凱藍實業有限公司 Zhongtuo Kailan	中山市海蓝水资源开发有限公司 Zhongshan Hailan Water Resource Development Co., Ltd		2016年04月27日			
经营范围 Operating Scope	生活污水及印染废水处理及净化；销售：污水处理设备；工业供水。	水资源开发；生活污水及印染废水处理及净化；销售：污水处理设备；工业供水。（依法须经批准的项目，经相关部门批准后方可开展经营活动。）		2016年04月27日			
企业类型 Type of Company	有限责任公司(自然人投资或控股)	有限责任公司(法人独资)		2015年05月07日			

Source: <http://gsxt.gdgs.gov.cn/aiccips/index>

SAIC filings also indicate that the Company paid an inflated price to purchase Zhongtuo Kailan. Filings show that undisclosed related party Guangzhou Yingzhou acquired Zhongtuo Kailan for only **RMB 20 million**, in two separate transactions, the first in October 2014, and the second in May 2015.

Zhongtuo Kailan

Decision of Shareholders Meeting

中山市中拓凯蓝实业有限公司

股东会决议

出席会议股东：林永建、林植联。

列席会议新增股东：广州盈洲投资有限公司（刘光辉）。

根据《公司法》及公司章程，中山市中拓凯蓝实业有限公司于 2014 年 10 月 10 日在（中山市）召开股东会，出席本次会议的股东共 2 人，代表公司股东 100 % 的表决权，所作出决议经公司股东表决权的 100 % 通过。决议事项如下：
Zhongtuo Kailan hold shareholders meeting on 10/10/2014

1. 免去林植联 监事的职务；同意选举刘光辉 为监事，任期三年，可连选连任。

2. 免去林永建 执行董事（法定代表人）兼经理的职务，同意选举 吴水满 为执行董事（法定代表人）兼经理，任期三年，可连选连任。

3. 同意林植联 将占公司注册资本 45 % 的股权，共 900 万元的出资以 900 万元转让给广州盈洲投资有限公司。

4. 同意就上述变更事项修改公司章程相关条款：
Guangzhou Yingzhou acquired 45% of Zhongtuo Kailan for RMB 9M, approved during shareholders meeting

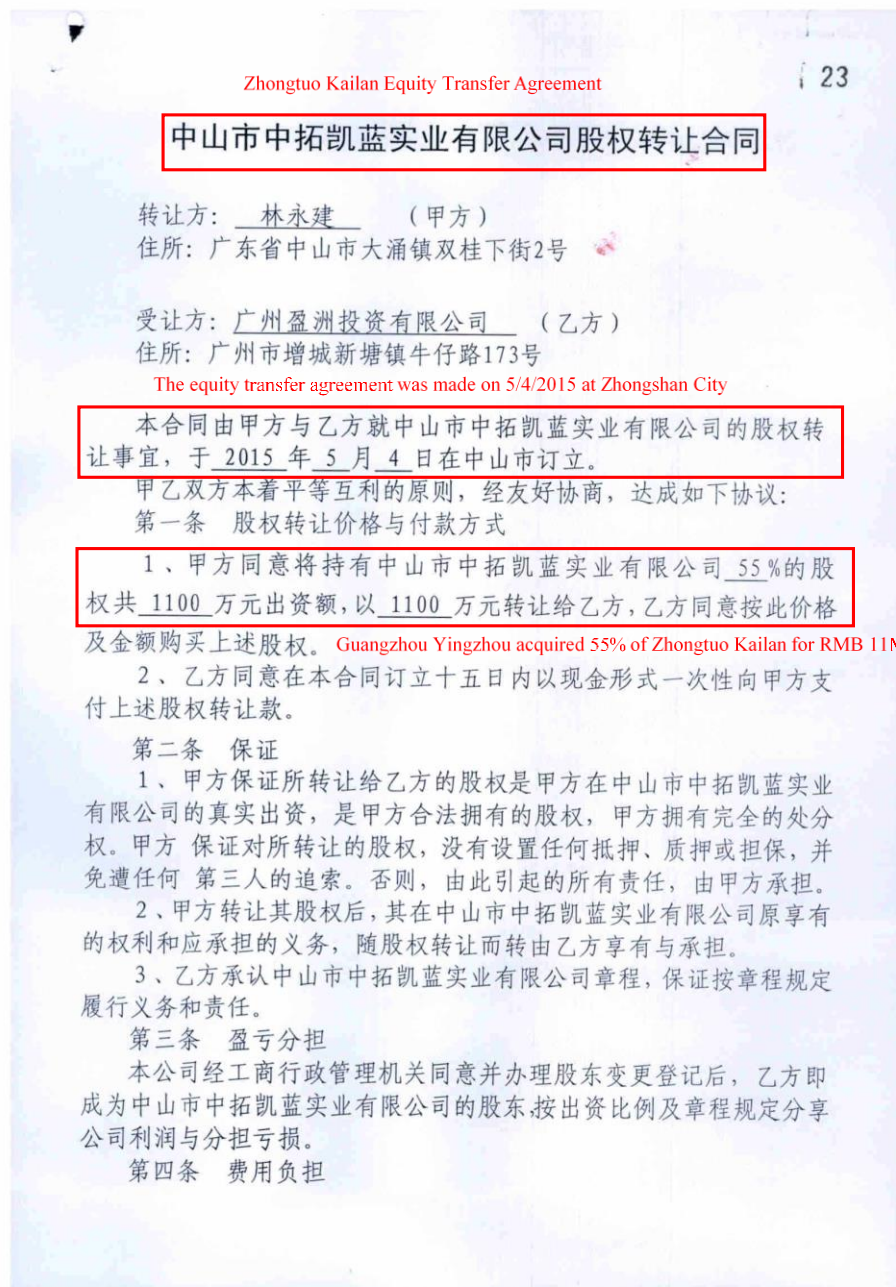
原股东：(签名或盖章)



新增股东：(签名或盖章)



Source: Zhongtuo Kailan SAIC Filings



Source: Zhongtuo Kailan SAIC Filings

SAIC filings show that Guangzhou Yingzhou acquired Zhongtuo Kailan for RMB 20 million, only to sell it to CTEG one year later for **RMB 116 million**. The undisclosed party secretly connected to CTEG's Chairman flipped the facility to the Company at a **5.8x markup**. But this likely understates the true cost to the Company, because Zhongtuo Kailan supposedly carried RMB 162 million in payables to an undisclosed party, which we suspect is either CTEG's Chairman or parties closely connected to him, resulting in a total purchase price of RMB 278 million, a 13.9x markup. We think the evidence is clear, just like with Ganghui Huanbao, that insiders massively inflated the purchase price of facilities acquired from undisclosed related parties.

c. Hanyang Shuiwu Acquisition.

A third acquisition follows a similar pattern. In November 2015, CTEG acquired 100% of Shunde Hanyang Industrial Water Supply Company Limited ("Hanyang Shuiwu") for a total consideration of **RMB 87 million**. In CTEG's

[former operating agreement with Hanyang Shuiwu](#), CTEG claimed that all of Hanyang Shuiwu's ultimate beneficial owners were independent third parties. SAIC filings reveal a different story.

Below is a screenshot from the SAIC website which discloses that Xintao is the current shareholder of Hanyang Shuiwu. However, prior shareholder information disclosed in SAIC filings reveal that Hanyang Shuiwu was previously owned by Guangzhou Yingzhou, the same undisclosed related party that was/is the beneficial owner of the other acquisitions discussed in this section.

登记信息	备案信息	动产抵押登记信息	股权出质登记信息	行政处罚信息	经营异常信息	严重违法失信信息	抽查检查信息
基本信息							
Unified Social Credit Identifier 统一社会信用代码 914406067606124212							
Registration Number 注册号	440681000337833	Company Name 名称		Hanyang Shuiwu 佛山市顺德区韩洋水务工程有限公司			
类型	有限责任公司(法人独资)	Legal Rep 法定代表人		刘光辉 Guanghui Liu			
Registration Capital 注册资本	100万人民币元 1M RMB	Incorporation Date 成立日期		2004年02月26日 02/26/2004			
经营场所	佛山市顺德区均安镇生安路6号						
Operating Since 营业期限自	2004年02月26日 02/26/2004	Operating Until 营业期限至		长期 Long-term			
Operating Scope 经营范围	供应工业用水及供水管道安装工程(涉及行政许可项目凭有效许可证或批准证书经营)。= (依法须经批准的项目,经相关部门批准后方可开展经营活动)= Industrial water supply and water supply pipeline installation projects						
Registration Bureau 登记机关	佛山市顺德区市场监督管理局 Market Supervision Administration of Fo Shan			Approval Date 核准日期		2016年02月22日 02/22/2016	
Registration Status 登记状态	存续 On-going						

Shareholder Information 股东信息				
Shareholder Type 股东类型	Shareholder 股东	License Type 证照/证件类型	License Number 证照/证件号码	Details 详情
Enterprise Legal Person 企业法人	广州新滔水质净化有限公司	营业执照		详情
Guangzhou Xintao Wastewater Treatment Company Business License << 1/1 >>				

Amendment Information 变更信息				
Amendment 变更事项	Before Amendment 变更前内容	After Amendment 变更后内容	Amendment Date 变更日期	
Institutional Shareholder 法人股东	查看变更前资料	查看变更后资料	2016年02月22日	
Institutional Shareholder 法人股东	查看变更前资料	查看变更后资料	2015年01月30日	
Legal Rep 法定代表人	陈永新 Yongxin Chen	刘光辉 Guanghui Liu	2015年01月30日	



佛山市顺德区韩洋水务工程有限公司 注册号: 440681000337833
Hanyang Shuiwu

Shareholder Information before amendment 股东信息(变更前)		
Shareholder 股东名称	License Number 证照号	
广州盈洲投资有限公司 Guangzhou Yingzhou Investment Co.,Ltd	4401*****80	

Source: <http://gsxt.gdgs.gov.cn/aiccips/index>

The Company acquired Hanyang Shuiwu for RMB 87 million. Yet like the other transactions discussed in this section, SAIC indicates that this purchase price was massively inflated. **SAIC filings show that ten months prior to the sale of Hanyang Shuiwu to CTEG, Guangzhou Yingzhou acquired the entity for only RMB 1 million!**

Hanyang Shuiwu

006

Decision of Shareholders Meeting

佛山市顺德区韩洋水务工程有限公司
股东决定

The shareholders meeting was hold on 1/28/2015

佛山市顺德区韩洋水务工程有限公司股东于2015年1月28日



作出决定，决定内容符合《中华人民共和国公司法》及本公司章程的
有关规定，内容如下：

一、同意陈永新将占公司注册资本100%的股权，共100万元，以
100万元转让给广州盈洲投资有限公司。

二、股权转让后股东的出资情况为：*Guangzhou Yingzhou acquired 100%
of Hanyang Shuiwu for RMB 1M,
approved during shareholders meeting*
广州盈洲投资有限公司，实缴出资 100 万元，占本公司注册资
本的 100%，出资方式为货币，已于变更登记时缴足。

三、同意新增股东广州盈洲投资有限公司，新股东广州盈洲投资
有限公司实缴出资 100 万元。

四、同意免去陈永新的执行董事职务；同意任命刘光辉为执行董
事（法定代表人）。同意免去麦利明的监事职务；同意聘任吴水满
为监事。同意免去的陈永新经理职务；同意聘任刘光辉为经理。

五、同意就变更事项重新制定公司章程。

NO. E 000101090000000000000001004-6-502669-20161012

Source: Hanyang Shuiwu SAIC Filings

SAIC filings show that the Company paid **87x times more than undisclosed related Guangzhou Yingzhou paid to acquire the exact same facility only ten months before!**

Such a massive inflation of the purchase price of a facility purchased from a secretly related party is, in our opinion, so indefensible that on this basis alone, the actions of CTEG's management renders the Company uninvestable.

In aggregate, the deception appears to be systematic. Guangzhou Yingzhou acquired three entities for RMB for 46 million, then one year later flipped these same facilities to the Company for **RMB 276 million in 2015**. But because these entities carried mysterious payables to unnamed third parties, the actual cost was closer to RMB 628 million.

RMB'000	Guangzhou Yingzhou		CTEG			Difference		
Acq Target	Date	Acquisition Cost	Date	Reported Acquisition Cost	Total Acquisition Cost	Time difference	ΔAcquisition cost	ΔTotal Cost
Ganghui Huanbao	9/10/2014	25,000	11/30/2015	72,948	221,563	14 months	2.9x	8.9x
Hanyang Shuiwu	1/28/2015	1,000	11/30/2015	86,801	128,655	10 months	86.8x	128.7x
Zhongtuo Kailan	5/4/2015	20,000	11/30/2015	115,776	277,712	7 months	5.8x	13.9x
Total		46,000		275,525	627,930		6.0x	13.7x

Source: Company filings, SAIC filings

If we consider only the acquisition consideration paid by the Company to acquire these three entities, it appears that undisclosed related party Guangzhou Yingzhou marked up the value of the **three entities by 6.0x** in just a year.

SAIC filings indicate that Guangzhou Yingzhou was only incorporated on July 29, 2014, just a few weeks before it acquired Ganghui Huanbao. In our opinion, this suggests that Guangzhou Yingzhou's sole purpose was to serve as a secret related party middleman through which CTEG could mark up the value of its acquisitions.

If we include the mysterious payables, the purchase price of these three facilities was inflated by **13.7x**. CTEG does not disclose the identity of such creditors, but in our experience, this is an established method of quietly funneling money to undisclosed related parties. We believe, based on the size of the payables and the undisclosed related party connection to the acquired entities, that insiders are likely the beneficiary of such payments. We leave it to regulators with subpoena power to determine whether such payments ended up in the hands of insiders, but in our opinion, the evidence is compelling.

d. Menghui Technology.

On January 8, 2015, CTEG entered an [operating agreement](#) with Guangzhou Menghui Technology Company Limited (“Menghui Technology”) to upgrade, operate and maintain its wastewater treatment facility in Zengcheng, China. The agreement states that CTEG will invest RMB 35 million into Menghui Technology in exchange for a 20-year fee, payable monthly to CTEG for services rendered. CTEG's claimed that all Menghui Technology's ultimate beneficial owners were independent third parties. Again, we believe that this is a lie.

SAIC filings reveal that Menghui Technology is owned by Guangzhou Yingzhou, the same undisclosed related party that is/was the beneficial owner of the three separate acquisitions made by CTEG in 2015.

登记信息	备案信息	动产抵押登记信息	股权出质登记信息	行政处罚信息	经营异常信息	严重违法失信信息	抽查检查信息
基本信息 Basic Information							
Unified Social Credit Identifier 统一社会信用代码	914401835583624576						
Registration Number 注册号	440125000039164		Guangzhou Menghui Technology Company Limited Company Name 名称 广州市萌辉电子科技有限公司				
类型	有限责任公司(法人独资)		Legal Rep 法定代表人 刘光辉 Guanghui Liu				
Registration Capital 注册资本	50万 500,000 RMB		Incorporation Date 成立日期 2010年07月07日 07/07/2010				
经营场所	广州市增城石滩镇沙庄下围工业区(临时经营场所使用证明有效期至2017年8月27日)						
Operating Since 营业期限自	2010年07月07日 07/07/2010		Operating Until 营业期限至 2017年08月27日 08/27/2017				
Operating Scope 经营范围	电子、通信与自动控制技术研究、开发;环保技术开发服务;环保设备批发;商品批发贸易(许可审批类商品除外);商品零售贸易(许可审批类商品除外);化工产品废弃物治理; (依法须经批准的项目,经相关部门批准后方可开展经营活动)≡						
Registration Bureau 登记机关	广州市工商行政管理局增城分局		Approval Date 核准日期 2016年04月18日 04/18/2016				
Registration Status 登记状态	Guangzhou Administration Bureau for Industry and Commerce (Zeng Cheng) 存续 On-going						
Shareholder Information 股东信息							
Shareholder Type 股东类型	股东的出资信息截止2014年2月28日。2014年2月28日之后工商只公示股东姓名,其他出资信息由企业自行公示。						
Shareholder 股东	Enterprise Legal Person 广州盈洲投资有限公司		License Type 证照/证件类型 License Number 证照/证件号码 Details 详情				
Enterprise Legal Person	Guangzhou Yingzhou Investment Co.,Ltd						

Source: <http://gsxt.gdgs.gov.cn/aiccips/index>

SAIC filings indicate that Guangzhou Yingzhou purchased Menghui Technology for **only RMB 500,000** just two weeks before CTEG announced it was investing RMB 35 million in the entity.

Guangzhou Menghui Equity Transfer Agreement

广州市萌辉电子科技有限公司
股东转让股权合同书

转让方：叶树明、周池玉
受让方：广州盈洲投资有限公司

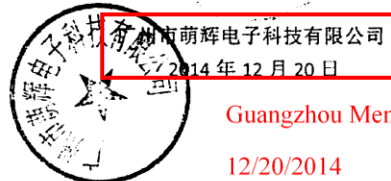
广州市萌辉电子科技有限公司是由叶树明出资 40 万元，周池玉 10 万元共同设立的。根据《中华人民共和国公司法》的有关规定和股东会决议，现就股权转让事宜订立如下条款：

- 一、 同意叶树明股东将原出资 40 万元（占公司注册资本 80%），全部转让给广州盈洲投资有限公司，转让金额为 40 万元；
- 二、 同意周池玉股东将原出资 10 万元（占公司注册资本 20%），全部转让给广州盈洲投资有限公司，转让金额为 10 万元；
- 三、 合同签订之日，受让方需将转让金额全部付给转让方。
- 四、 从 2014 年 12 月 20 日起，公司的股东为广州盈洲投资有限公司，承认修改后的本公司章程，并享有股东权益。
- 五、 股权转让后，股东新的投资比例为：广州盈洲投资有限公司出资 50 万元，占公司注册资本的 100%。
- 六、 至 2014 年 12 月 20 日止，本公司债权债务已核算清楚，无隐瞒，转让和受让股东均已认可，并已经明确按照《中华人民共和国公司法》的有关规定承担责任。
- 七、 公司红利的收益按本合同签订之日计算，转让方享有转让前的红利，受让方享有转让后的红利。
- 八、 本合同如发生纠纷，双方协商，协商不成时向人民法院起诉。
- 九、 本合同一式伍份，交工商机关一份，全体新旧股东各持一份，公司存档一份，均具有同等法律效力。
- 十、 本合同自转让方和受让方签字及公司盖章之日起生效。

Guangzhou Yingzhou
acquired 100% of Guangzhou
Menghui for RMB 500K

转让方：叶树明
周池玉

受让方：



Guangzhou Menghui

12/20/2014

Source: Guangzhou Menghui SAIC Filings

This case raises obvious questions. If the Company wanted to invest in or build a facility, why didn't CTEG do so directly? Why was the investment in Menghui Technology routed through Guangzhou Yingzhou? In our opinion, the answer is obvious. Insiders insured that the entity, worth only RMB 500,000 was first purchased by an undisclosed related party, making that undisclosed related party the beneficiary of the Company's RMB 35 million proposed investment.

But in this case, Hong Kong regulators have a rare opportunity to stop CTEG and its insiders before further damage is done to shareholder interests.

The Company announced in 2015 Annual Report that it paid acquisition deposits in aggregate of RMB 88 million to acquire Menghui Technology and two other entities (Guangzhou Jimei and Zhongling Chemical), which are all owned by undisclosed related party Guangzhou Yingzhou or its shareholder Mr. Guanghui Liu.

All of the prepayments and other receivables (including amounts due from related parties), apart from those classified as non-current portion, are expected to be recovered or recognised as expense within one year.	所有預付款項及其他應收款項(包括應收關聯方)預期將於一年內收回或確認為開支,惟不包括分類為非即期的部分。
* For the year ended 31 December 2015, prepayment of RMB36,254,000, RMB31,870,000 and RMB20,000,000 represents acquisition deposit paid to Menghui Technology, Guangzhou Jimei and Zhongling Chemical, respectively.	* 截至二零一五年十二月三十一日止年度,預付款項分別為人民幣36,254,000元、人民幣31,870,000元及人民幣20,000,000元,為支付予廣州萌輝、廣州吉美及中凌化工之收購按金。
As at 31 December 2014, prepayment of RMB100,000,000 represents acquisition deposit paid to Mr. Gu Yaokun for the acquisition of Guangzhou Lvyou (note 13(b)(viii)).	於二零一四年十二月三十一日,預付款項為人民幣100,000,000元,為收購廣州緣由支付予古耀坤先生之收購按金(附註13(b)(viii))。

Source: CTEG 2015 Annual Report, p. 137

A simple SAIC filing record search reveals that both Guangzhou Jimei and Zhongling Chemical are also owned by undisclosed related party Guangzhou Yingzhou (or its shareholder Mr. Guanghui Liu).

登记信息	备案信息	动产抵押登记信息	股权出质登记信息	行政处罚信息	经营异常信息	严重违法失信信息	抽查检查信息
Unified Social Credit Identifier 基本信息							
统一社会信用代码	91440183773332269N		Guangzhou Jimei Environmental Protection Technology Company				
Registration Number 注册号	440125000069458		Company Name 名称 广州市吉美环保科技有限公司				
类型	有限责任公司(法人独资)		Legal Rep 法定代表人 刘光辉				
Registration Capital 注册资本	100万 RMB 1M		Incorporation Date 成立日期 2005年04月30日 04/30/2005				
经营场所	广州市增城区新塘镇官湖村猫岭路2号						
Operating Since 营业期限自	2005年04月30日 04/30/2005		Operating Until 营业期限至 长期 Long-term				
Operating Scope 经营范围	污水处理及其再生利用; (依法须经批准的项目,经相关部门批准后方可开展经营活动) =						
Registration Bureau 登记机关	广州市工商行政管理局增城分局		Approval Date 核准日期 2016年08月12日 08/12/2016				
Registration Status 登记状态	存续 On-going						
Shareholder Information 股东信息							
股东的出资信息截止2014年2月28日。2014年2月28日之后工商只公示股东姓名,其他出资信息由企业自行公示。							
Shareholder Type 股东类型	Shareholder 股东		证照/证件类型		证照/证件号码		详情
Corporate Shareholder 法人股东	广州盈洲投资有限公司		Guangzhou Yingzhou Investment Co.,Ltd				详情

Source: <http://gsxt.gdgs.gov.cn/aiccips/index>



Guangzhou Jimei Environmental Protection Technology Company

广州市吉美环保科技有限公司 注册号/统一社会信用代码: 9144018377332269N

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Management 主要人员信息					
序号	Name 姓名	Position 职务	序号	姓名	职务
1	Guanghui Liu 刘光辉	Executive Director 执行董事	2	罗健豪	经理
3	姚兆俊	监事			

Source: <http://gsxt.gdgs.gov.cn/aiccips/index>

Basic Information 基本信息						
Unified Social Credit Identifier 统一社会信用代码	91440183721991334R		Zengcheng Zhongling Chemical Plant Company Company Name 名称 增城市中凌化工厂			
Registration Number 注册号	440125000033788		Executive Partner 执行事务合伙人 刘光辉(委派代表: 刘光辉) Guanghui Liu (Rep: Guanghui Liu)			
类型	普通合伙企业					
经营场所	广州市增城区石滩镇三江田桥工业区(临时经营场所使用证明有效期至2017年4月26日)					
Operating Since 合伙期限自	1999年10月27日 10/27/1999		Operating Until 合伙期限至	2017年04月26日 04/26/2017		
Operating Scope 经营范围	非金属材料及碎屑加工处理;化工产品零售(危险化学品除外);五金零售;电子产品零售;五金产品批发;电子产品批发;化工产品批发(危险化学品除外);化工产品废弃物治理; (依法须经批准的项目,经相关部门批准后方可开展经营活动)					
Registration Bureau 登记机关	广州市工商行政管理局增城分局		Approval Date 发照日期	2016年05月16日 05/16/2016		
Incorporation Date 成立日期	1999年10月27日 10/27/1999		Registration Status 经营状态	存续 On-going		
Partner Information 合伙人信息						
Partner Type 合伙人类型	Partner 合伙人	证照类型	证照号码	国家(地区)	住所	承担责任方式
Individual Shareholder 自然人股东	刘光辉 Guanghui Liu					
自然人股东	吴水满 Shuiman Wu					

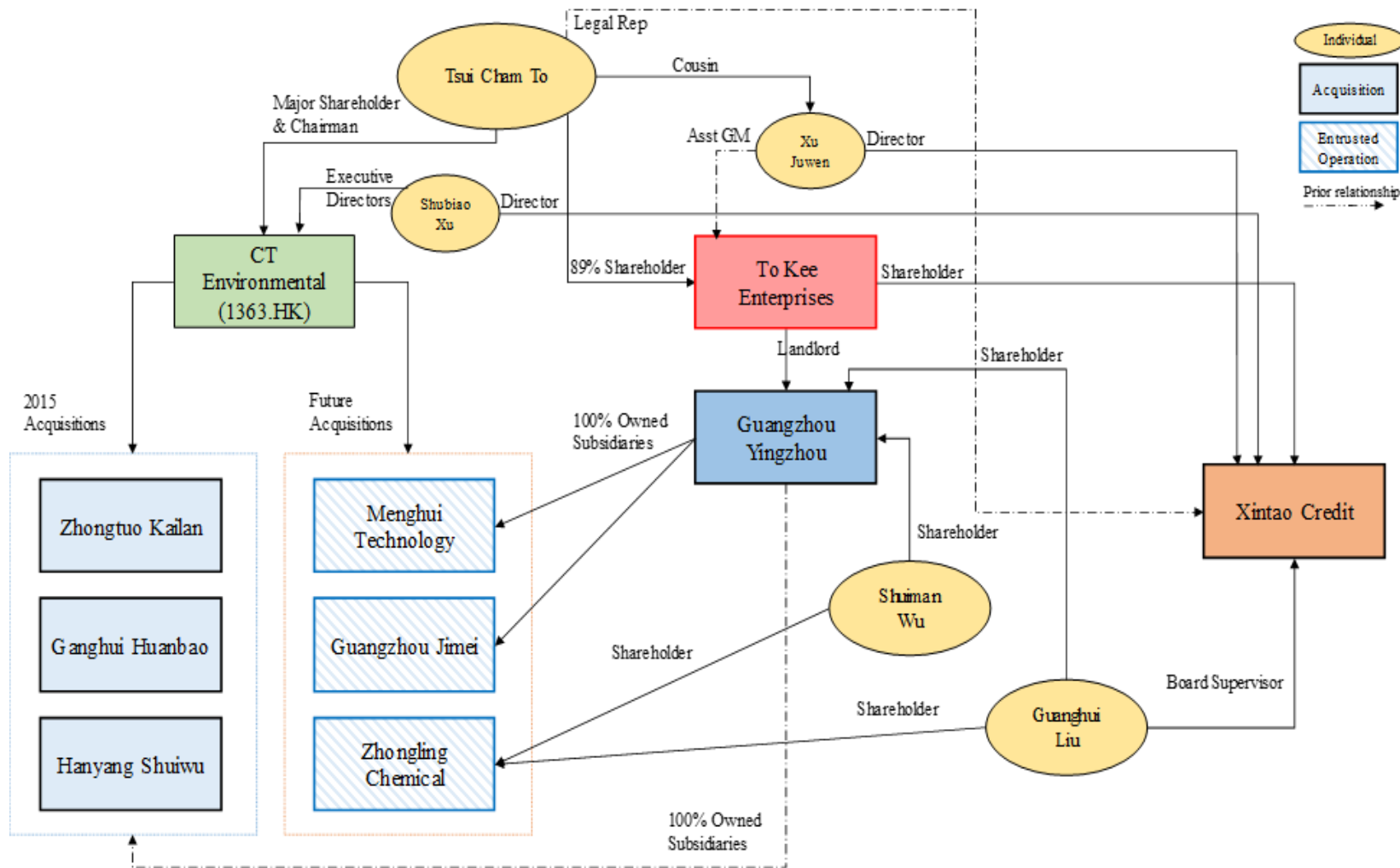
Source: <http://gsxt.gdgs.gov.cn/aiccips/index>

Furthermore, SAIC filings indicate that Menghui Technology was purchased by undisclosed related party Guangzhou Yingzhou a year prior for only RMB 500,000. CTEG's acquisition deposit represented a **72.5x** markup on a facility purchased by an undisclosed party a year earlier.

RMB '000	Guangzhou Yingzhou		CTEG	
	Date	Acquisition Cost	Date	Acquisition Deposits
Menghui Technology	12/20/2014	500	12/31/2015	36,254
Guangzhou Jimei	N/A	N/A	12/31/2015	31,870
Zhongling Chemical	N/A	N/A	12/31/2015	20,000
Total		500		88,124

Source: SAIC Filings and Company Annual Reports

We believe that like the previous acquisitions from undisclosed related party Guangzhou Yingzhou, the Company will inflate acquisition costs, thereby hurting shareholders and unjustly enriching insiders. The difference is in this case, we believe that if regulators act quickly they can halt such undisclosed related party transactions before shareholders are irreparably harmed.



SAIC FILINGS REVEAL FABRICATED FINANCIAL PERFORMANCE OF ACQUISITION

In April 2014, CTEG [acquired](#) Qingyuan Lvyou Environmental Protection Technology Company Limited (“[Qingyuan Lvyou](#)”), a company engaged in sludge and solid waste treatment, for an aggregate consideration of RMB 125 million.

The Company disclosed that Qingyuan Lvyou generated a loss in 2012 and net profits of only RMB 11.9 million in 2013.

According to the unaudited management accounts for the two financial years ended 31 December 2013 of the Target, the net profit/(loss) (before and after taxation and extraordinary items) for each of the two financial years ended 31 December 2013 and the net asset value as at 31 December 2013 of the Target are as follows:

	Financial year ended	
	31 December	
	2012	2013
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Net profit/(loss) before taxation and extraordinary items	(11,340)	12,138
Net profit/(loss) after taxation and extraordinary items	<u>(11,340)</u>	<u>11,937</u>
		As at
		31 December
		2013
		RMB'000
		(unaudited)
Net asset value		<u>10,597</u>

Source: [CTEG Disclosable Transaction Announcement - Qingyuan Lvyou](#)

To increase investor confidence in the transaction, Qingyuan Lvyou’s founder Mr. Gu Yao Kun (“[Mr. Gu](#)”) guaranteed to generate a minimum profit of HKD 80 million, HKD 100 million, and HKD 120 million for the three years 2014 through 2016, whereby he would pay cash compensation equal to **ten times the shortfall** in the event of missing the minimum profit threshold.

In its 2014 Annual Report, CTEG disclosed that Qingyuan Lvyou generated net profits greater than HKD 80 million in 2014, resulting in zero shortfall payments by Mr. Gu back to CTEG.⁸

Pursuant to the share transfer agreement, the original owner had agreed to provide a guarantee for a profit contribution from Lvyou to the profit of the Group for the year ended 31 December 2014 of not less than HK\$80,000,000. Such guarantee had been fulfilled for the year ended 31 December 2014.

Source: [CTEG 2014 Annual Report](#), p. 21

Yet SAIC filings indicate that the Company has misrepresented the financial performance of its acquisition. Publicly available Qingyuan Lvyou SAIC filings reveal that it generated a net loss of RMB 13.8 million in 2013, and generated a net profit of only RMB 27.2 million in 2014, at least **82% less than the aggregate profits reported to investors in those two years**.

⁸ We confirmed within CTEG’s reported financial performance that CTEG did not receive any sort of penalty payment or extraordinary income that would have been booked if the company received some type of guaranteed payment.

公司名称	Company Name	清远绿由环保科技有限公司	Qingyuan Lvyou
发布日期	Publication Date	2015-4-23 上午10:08:24	
报送年度	Submission Year	2013	
总资产总额	Total Asset	46845.63	
总负债总额	Total Debt	48361.79	
总营业收入	Total Revenue	2388.46	
净利润总额	Total Net Income	-1382.14	
净收入	Net Income	-1382.14	
所得税总额	Tax	67.14	
所有者权益合计	Shareholder's Equity	-1516.16	
主营业务收入	Revenue from Main Business	2387.96	

公司名称	Company Name	清远绿由环保科技有限公司	Qingyuan Lvyou
发布日期	Publication Date	2015-4-23 上午11:11:30	
报送年度	Submission Year	2014	
总资产总额	Total Asset	62207.89	
总负债总额	Total Debt	61006.03	
总营业收入	Total Revenue	13966.57	
净利润总额	Total Net Income	2718.02	
净收入	Net Income	2718.02	
所得税总额	Tax	285.7	
所有者权益合计	Shareholder's Equity	1201.86	
主营业务收入	Revenue from Main Business	13926.11	

Source: Qingyuan Lvyou SAIC Filings

The 2013 net losses revealed in SAIC filings are corroborated by the Company's own disclosure regarding Qingyuan Lvyou's tax holiday.

According to CTEG, Qingyuan Lvyou has the right to enjoy three years of a tax holiday starting from the year in which it starts generating an operating profit. As we can see in CTEG's disclosure, Qingyuan Lvyou is not subject to income tax from 2014 to 2016, suggesting that Qingyuan Lvyou did not make money prior to 2014.

Qingyuan Lvyou Environmental Protection Technology Company Limited ("Lvyou") and Heyuan Solid Waste Centralised Disposal Centre Company Limited ("Heyuan Solid"), being entities engaged in solid waste treatment, are entitled to the 3+3 tax holiday starting from the year in which the project first generates operating revenue. Lvyou is subject to income tax at 0% from 2014 to 2016, 12.5% from 2017 to 2019, and 25% from 2020; and Heyuan Solid is subject to income tax at 0% from 2010 to 2012, 12.5% from 2013 to 2015, and 25% from 2016 onwards.

Source: 2014 Annual Report, p. 88

Qingyuan Lvyou Environmental Protection Technology Company Limited ("Qingyuan Lvyou") and Heyuan Solid Waste Centralised Disposal Centre Company Limited ("Heyuan Solid"), being entities engaged in solid waste treatment, are entitled to the 3+3 tax holiday starting from the year in which the project starts to generate operating revenue. Qingyuan Lvyou is subject to income tax at 0% from 2014 to 2016, 12.5% from 2017 to 2019, and 25% from 2020 onwards; and Heyuan Solid is subject to income tax at 0% from 2010 to 2012, 12.5% from 2013 to 2015, and 25% from 2016 onwards.

Source: 2015 Annual Report, p. 104

This is consistent with SAIC filings showing a net loss in 2013, but directly contradicts the Company's prior disclosures that Qingyuan Lvyou generated a net profit of RMB 11.9 million in 2013.⁹ If Qingyuan Lvyou was indeed profitable in 2013, then the tax holiday would have begun that year, not 2014 as the Company admits.

⁹ <http://www.hkexnews.hk/listedco/listconews/SEHK/2014/0430/LTN201404301320.pdf>

ENTRUSTED OPERATIONS: UNDISCLOSED RELATED PARTY REVENUES

In the Company's 2015 annual report, a mysterious new source of revenue appeared which CTEG labelled "entrusted operation services."¹⁰ The Company did not tell the market much about this segment, except that in its breakdown it disclosed that entrusted operation services accounted for RMB 131.4 million in revenue and RMB 130.9 in EBITDA, and generated an EBITDA margin of 99.7%.

2 Turnover and Segment Reporting (Continued)		2 收入及分部呈報(續)							
(a) Information about profit or loss		(a) 有關溢利或虧損之資料							
Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance is set out below.		本集團高級管理層就資源分配及分部業績評估所提供之可呈報分部有關之資料載列如下：							
		Provision of wastewater treatment	BOT project construction and operation services	Provision of heating services	Provision of sludge and solid waste treatment services	Provision of entrusted operation services	Provision of hazardous waste treatment services	Total	
		Supply of industrial water	plants operation services	and operation services	heating treatment services	operation services	hazardous waste treatment services		
		提供污水處理設施	項目建設及營運服務	提供熱服務	提供污泥及固體廢物處理服務	提供委託營運服務	提供危險廢物處理服務	總額	
For the year ended		2015	2015	2015	2015	2015	2015	2015	2015
截至年底		二零一五年	二零一五年	二零一五年	二零一五年	二零一五年	二零一五年	二零一五年	二零一五年
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		人民幣千元	人民幣千元	人民幣千元	人民幣千元	人民幣千元	人民幣千元	人民幣千元	人民幣千元
Revenue from external customers	來自外部客戶的收益	40,204	353,077	318,869	65,518	361,332	131,356	164,603	1,434,959
Inter-segment revenue	分部間收益	—	36,212	—	—	21,970	—	8,383	66,565
Reportable segment revenue	可呈報分部收益	40,204	389,289	318,869	65,518	383,302	131,356	172,986	1,501,524
Adjusted EBITDA	調整後EBITDA	29,471	262,472	79,389	4,325	210,943	130,945	106,791	824,356
Share of profits of associates/a joint venture	分佔聯營公司/一家合營企業的溢利	—	361	—	—	—	—	1,115	1,476
Depreciation and amortisation	折舊及攤銷	(2,478)	(52,365)	(555)	(1,220)	(54,534)	—	(33,224)	(144,576)

Source: 2015 Annual Report, p. 95

Odder still, the category of entrusted operation services did not appear in the similar breakdown of EBITDA in the 2014 annual report. The Company discloses that in 2015, 49% of the entrusted operation services came from six entities: Zhongtuo Kailan, Ganghui Huanbao, Hanyang Suiwu, Menghui Technology, Guangzhou Jimei, and Zhongling Chemical. As discussed in the previous section, all six entities are owned by or were acquired from undisclosed related party Guangzhou Yingzhou.

¹⁰ In the 2014 Annual Report (p. 10), under the segment labelled "Provision of WWT" the Company discloses "entrusted operation projects." But we consider it a new source of revenue because in the segment breakdown in 2015 Annual Report (p. 95-96), CTEG reported **zero** revenue and **zero** EBITDA for this segment in 2014.

Entrusted Operations Services Counter-Parties		
Agreement Date	Company	Undisclosed related parties
9/23/2014	Zhongtuo Kailan	Yes
9/23/2014	Ganghui Huanbao	Yes
2/10/2015	Hanyang Shuiwu	Yes
12/31/2015	Menghui Technology	Yes
12/31/2015	Guangzhou Jimei	Yes
12/31/2015	Zhongling Chemical	Yes

Source: Company Public Filings, SAIC Filings; Glaucus Opinion

EBITDA from entrusted operation services accounts for 16% of the Company's 2015 reported total EBITDA. We can infer that at least 49% of such EBITDA is supposedly generated by agreements with entities connected to the Chairman through Guangzhou Yinglong. Given that the Company reports an inexplicable 99% EBITDA margin in this segment and that CTEG lied about its connected party relationships, we question the authenticity of such reported profits.

QUESTIONABLE LAND PURCHASE

On November 25, 2013, Xintao successfully won land use rights at an auction for RMB 44 million.

已成交

增城市新塘镇塘美村

Block Number
地块编号: 83101217A12222

所在地区: 广东 > 增城市

地块评估 >>

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土地基本信息

地区: 广东	所在地: 增城市
总面积: 19777 平方米	建设用地面积: 19777平方米
规划建筑面积: 49444 平方米	代征面积: 暂无
容积率: 小于或等于2.5	绿化率: 大于或等于30
商业比例: 暂无	建筑密度: 小于或等于40
限制高度: 小于或等于100	出让形式: 挂牌
出让年限: 40年	位置: 增城市新塘镇塘美村
四至: 增城市新塘镇塘美村	规划用途: 商服用地

土地交易信息

交易状况: 已成交 Deal Status: Done	Bid Winner: Guangzhou Xintao
起始日期: 2013-11-07	竞得方: 广州新滔水质净化有限公司
成交日期: 2013-11-25	截止日期: 2013-11-25
起始价: 4400万元 Deal Close Date	交易地点: 增城市国土资源和房屋管理局
楼面地价: 890元	成交价: 4400万元 Deal Amount: RMB 44 Million
	溢价率: 暂无

Source: <http://land.fang.com/market/51ae4283-41f0-48b9-b4e1-c0b7ab47f3fd.html>

According to the government website describing the auction, companies bidding for the contract had to satisfy a number of conditions. The bidder had to be able to construct and operate a wastewater treatment and other waste management facility. Additionally, the bidder was required to provide sludge disposal, solid waste treatment and heating services.

(五) 该地块产业准入条件如下表所示:

地块编号 Block No.	Requirement 准入条件			
	Requirement for the bidding co. 产业类型及企业要求	年营业收入 Annual Revenue 要求 (万元)	固定资产投资 Investment 总额 (万元)	年税收要求 Annual Tax (万元)
83101217A 12222	1、产业类型：总部经济； 2、企业要求： ①经营范围：同时具备污水处理及其他 环境污染治理设施的建设、经营。污泥 固废处置服务及提供配套热汽供应服 务。环保产品及设备技术开发、销售， 环境保护信息及技术咨询。 ② 2011 年的纳税总额不低于人民币 3000 万元。 ③需获得《环境污染治理设施运营资质 证书》，证书等级为：生活污水甲级、 工业废水甲级。	≥ 100000 (3370.86 万元 /亩)	Unit: RMB '0000 ≥ 39000 (1314.64 万元 /亩)	≥ 5000 (168.54 万元 /亩)

Business Scope: Expertise in both construction and operation in wastewater treatment and other pollution management business. Sludge, solid waste treatment, and heating and steam provider. Environmental protection product and technology development, sales and consulting on relevant intelligence and technology.

Source: <http://www.zcgj.gov.cn/NewsInfo/NewsInfoDetail.aspx?NewsID=2858>

As another condition for purchasing the land, construction had to begin within 12 months after signing and construction had to be completed with 36 months after signing. Signing occurred fifteen days after the Company won the concession.

(二) 动工及竣工要求

竞得人须在签订《国有建设用地使用权出让合同》之日起 12 个月内完成项目所有立项、环评、规划等报批手续并动工开发，须在签订《国有建设用地使用权出让合同》之日起 36 个月内竣工。

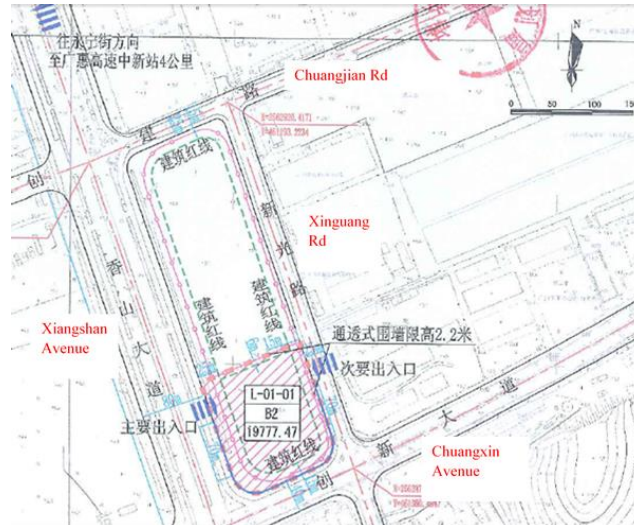
其中在签订《国有建设用地使用权出让合同》后，10 个月内完成规划、施工报建手续，取得《建设用地规划许可证》、《建设工程规划许可证》和《施工许可证》，12 个月内动工开发。

动工开发是指依法取得施工许可证后，需挖深基坑的项目，基坑开挖完毕；使用桩基的项目，打入所有基础桩；其他项目，地基施工完成三分之一。竣工是指本项目已全部完成所有设计图纸要求完成的工程量，并依法取得建设工程的《建设工程规划验收合格证》。

The bid winner must finish all paperwork and get approval from the government regarding to project set-up, environmental evaluation and planning, and begin the construction within 12 months after "Contract of State-Owned Construction Land Use Right Assignment" (the contract) is signed. The construction must be completed within 36 months after the contract is signed.

Source: <http://www.zcgj.gov.cn/NewsInfo/NewsInfoDetail.aspx?NewsID=2858>

Below is a permit layout of the land.



Source: <http://www.zcgjtj.gov.cn/NewsInfo/NewsInfoDetail.aspx?NewsID=2858>

Despite the condition that construction had to begin within a year after signing and be completed 36 months after signing, a Baidu map and a recently photo taken during site visit in September, 2016, reveal that nearly three years later, the Company has not commenced construction on the property.



Source: <http://map.baidu.com/>

An investigator visiting the site confirmed that at least from the outside, it did not appear that construction had begun on any facility in any meaningful way. The investigator took photos showing some pipes and other materials, but did not see any workers or buildings in progress.



Source: Site visit

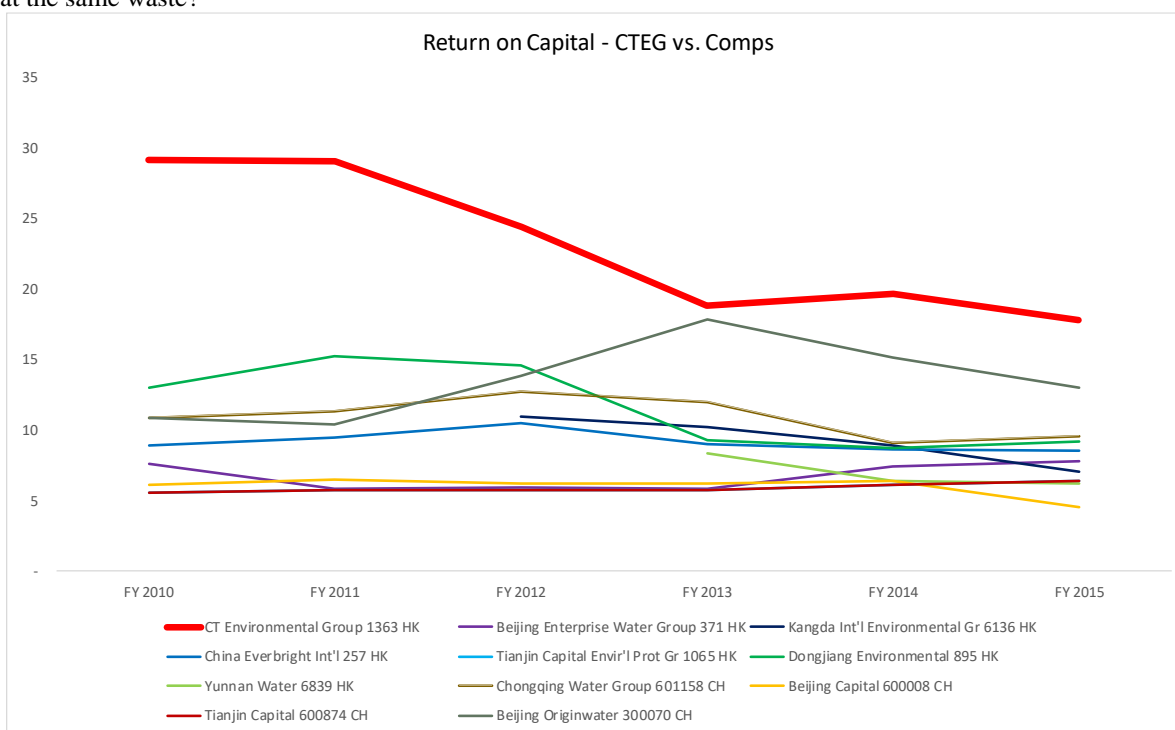
Why would the Company take on debt to spend RMB 44 million in cash for a property that sits idle in violation of the land purchase contract?

RECORD PROFITABILITY AT ODDS WITH SERIAL CAPITAL RAISING

Wastewater treatment in China is a crowded and commoditized space which is heavily regulated by the Chinese government. We would not expect a business like CTEG, without a material technological advantage over its competitors, to report financial performance which significantly deviated from its peers. Yet CTEG's reported financial performance so exceeds that of its peers that its reported figures simply defy credibility.

For example, from 2010-2015, CTEG reported returns on capital as high as 29% and never dropping below a staggering 17%. During that same period, a basket of other wastewater treatment and waste disposal companies in China reported an average return on capital of 7-9%.

In commoditized space with thousands of treatment facilities, how can a Company like CTEG without a technological advantage or economies of scale so significantly outperform other Chinese companies building the same facilities to treat the same waste?

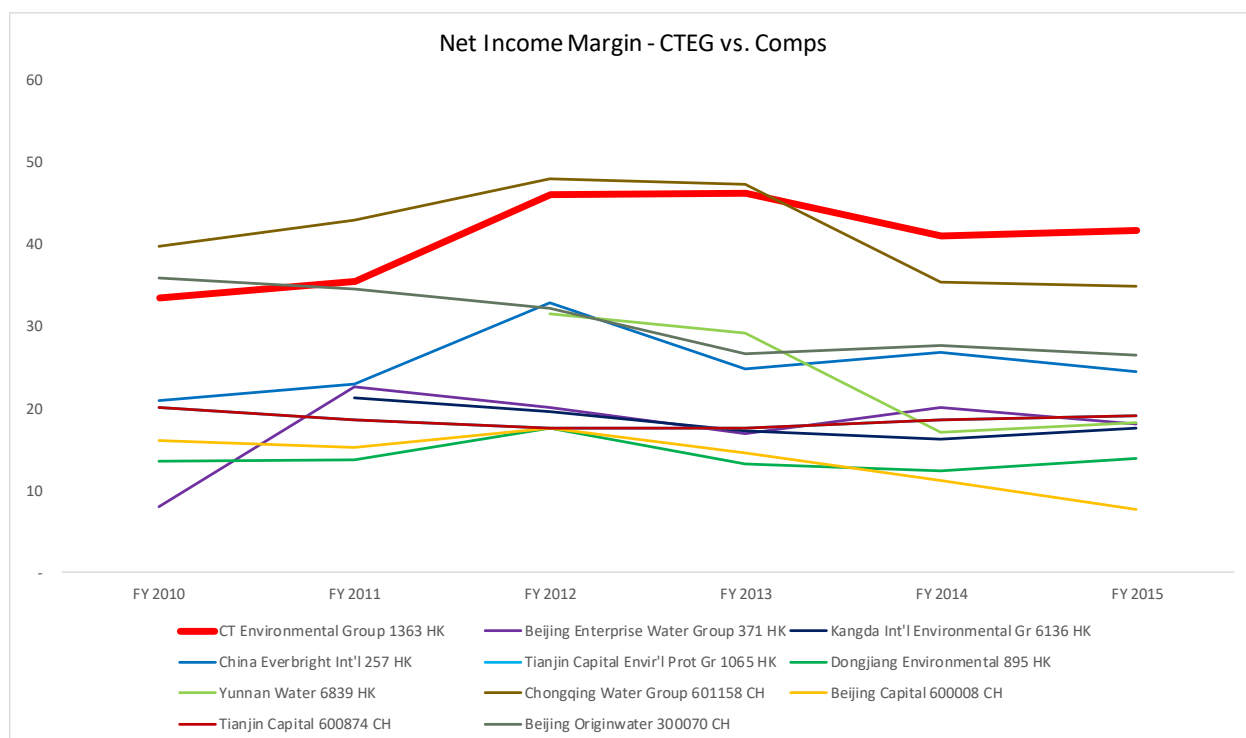


Return on Capital (%)

Company Name	Ticker	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	Average
HKEx-listed								
Beijing Enterprise Water Group	371 HK	7.60	5.86	5.91	5.88	7.48	7.79	6.75
Kangda Int'l Environmental Group	6136 HK	N/A	N/A	10.99	10.25	8.95	7.08	9.32
China Everbright Int'l	257 HK	8.92	9.49	10.49	9.06	8.63	8.59	9.20
Tianjin Capital Envir'l Prot Group	1065 HK	5.59	5.80	5.76	5.80	6.13	6.40	5.92
Dongjiang Environmental	895 HK	13.07	15.30	14.62	9.32	8.70	9.18	11.70
Yunnan Water	6839 HK	N/A	N/A	N/A	8.34	6.37	6.26	6.99
A-share								
Chongqing Water Group	601158 CH	10.86	11.35	12.70	11.99	9.14	9.57	10.94
Beijing Capital	600008 CH	6.16	6.55	6.19	6.24	6.38	4.51	6.00
Tianjin Capital	600874 CH	5.59	5.80	5.76	5.80	6.13	6.40	5.92
Beijing Originwater	300070 CH	10.91	10.41	13.83	17.88	15.12	12.99	13.52
	Average	8.59	8.82	9.58	9.06	8.30	7.88	8.70
CT Environmental Group	1363 HK	29.22	29.11	24.48	18.81	19.66	17.85	23.19
	Difference	240%	230%	155%	108%	137%	127%	166%

Source: Bloomberg

CTEG's reported performance is just as unbelievable when looking at reported profitability. In FY 2015, CTEG reported net income margins of 42%, which was more than double the average of its peers.

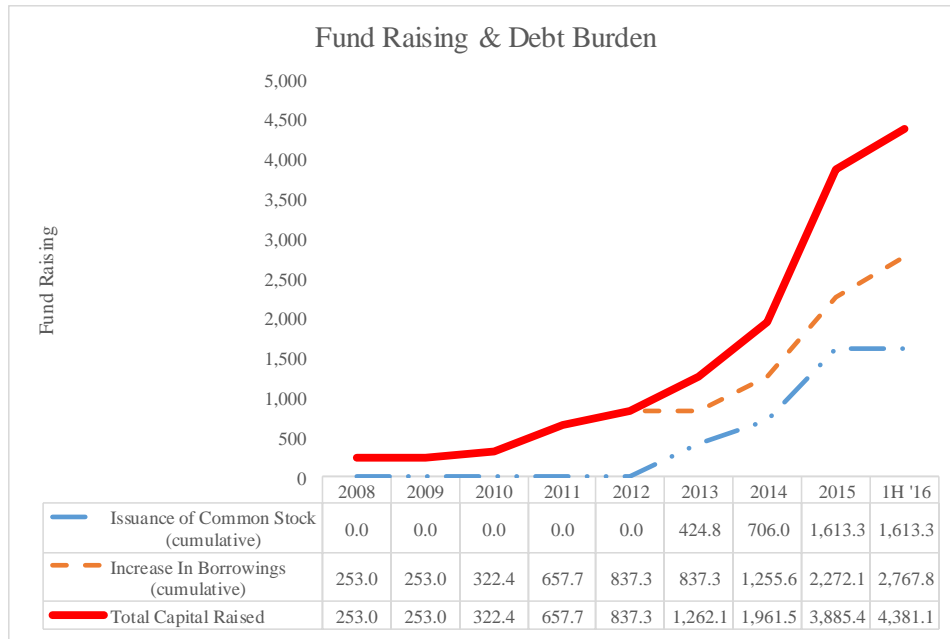


Net Income Margin (%)

Company Name	Ticker	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	Average
HKE-listed								
Beijing Enterprise Water Group	371 HK	8.07	22.63	20.13	16.92	20.10	18.18	17.68
Kangda Int'l Environmental Group	6136 HK	N/A	21.35	19.67	17.29	16.26	17.69	18.45
China Everbright Int'l	257 HK	21.04	22.99	32.94	24.90	26.80	24.43	25.52
Tianjin Capital Envir'l Prot Group	1065 HK	20.06	18.58	17.58	17.63	18.62	19.21	18.61
Dongjiang Environmental	895 HK	13.62	13.72	17.70	13.24	12.35	13.94	14.09
Yunnan Water	6839 HK	N/A	N/A	31.64	29.16	17.07	18.34	24.06
A-share								
Chongqing Water Group	601158 CH	39.75	43.04	48.04	47.31	35.42	34.94	41.42
Beijing Capital	600008 CH	16.19	15.20	17.59	14.65	11.19	7.70	13.75
Tianjin Capital	600874 CH	20.06	18.58	17.58	17.63	18.62	19.21	18.61
Beijing Originwater	300070 CH	35.92	34.58	32.32	26.75	27.74	26.53	30.64
	Average	21.84	23.41	25.52	22.55	20.42	20.02	22.29
CT Environmental Group	1363 HK	33.44	35.59	46.18	46.29	41.13	41.74	40.73
	Difference	53%	52%	81%	105%	101%	108%	84%

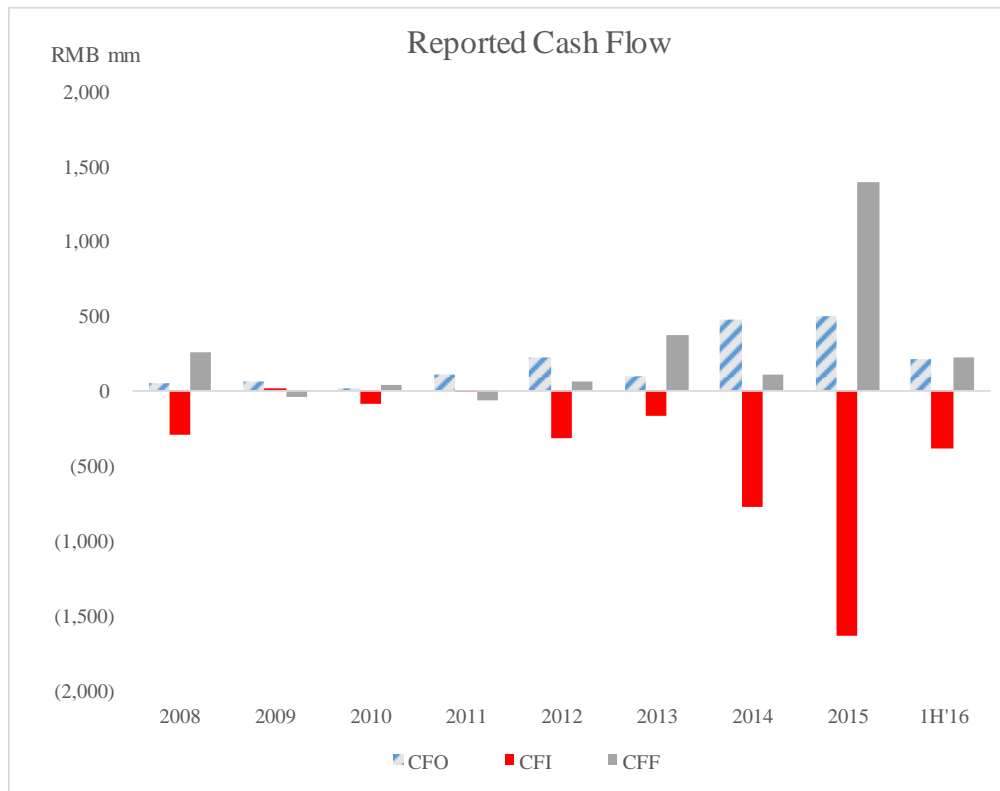
Source: Bloomberg

Such reported performance, in our opinion, appears too good to be true. It is even more suspicious that despite such record profitability (net income margins between 33-46%), CTEG is still a serial capital raiser. Since 2008, CTEG has raised a total of RMB 4.4 billion (RMB 3.5 billion since 2013) via equity and debt issuances.



Source: Company Public Filings

CTEG’s supposed profits have been spent on acquisitions and capital expenditures of questionable authenticity and purpose (such as the idle land purchase), sending CTEG back to the capital markets time and again to raise money. Indeed, its cash flows spent in investing have exceeded cash flows from operations by RMB 1.9 billion since 2008.



Reported Cash Flow

<i>RMB mm</i>	2008	2009	2010	2011	2012	2013	2014	2015	1H'16	Total
CFO	51.1	56.1	9.1	101.7	226.6	96.9	473.3	500.2	207.8	1,722.9
CFI	(290.7)	16.9	(88.1)	(7.0)	(318.5)	(164.5)	(775.1)	(1,633.7)	(392.4)	(3,653.2)
CFF	253.1	(43.4)	37.4	(65.7)	58.1	368.2	108.8	1,399.0	223.3	2,338.6

Source: Company Public Filings

This is a major red flag and in our opinion, bolsters the credibility of evidence presented in this report, such as the MEP data, indicating that the Company is fabricating its reported profitability and financial performance.

We have seen this pattern before in other listed companies that turned out to be frauds. Like [CMED](#) and [CMR](#), despite supposedly generating consistent and world-beating profit margins, CTEG is a serial capital raiser. Just because CTEG is in a capital-intensive business is no excuse. Recall that CMR, one of the most brazen frauds in Hong Kong history, also tried to make the excuse that its serial capital raising was justified by its need to invest in capital intensive scrap recycling facilities. We were not fooled with CMR and we are not fooled here.

VALUATION

In this report, we have presented evidence which in our opinions indicates that CTEG has significantly inflated the utilization rate of its BOO water treatment facilities. For its primary Xintao facility, the Company has claimed that it operates near 100% utilization. Yet MEP data indicates it operates at 54% this level in 2013 and 2014 (the most recent year for which we have MEP data).

The BOO segment is the driver of CTEG's supposed superior profitability (relative to its peers) and the primary component in the sell-side valuation of the Company's stock. Yet the MEP data indicates such supposed profitability is a mirage. This makes sense given that the Company is a serial capital raiser, despite its inexplicable financial performance.

Other evidence also suggests that the Company is violating Hong Kong securities rules and exaggerating its reported financial performance. SAIC filings indicate that the Company fabricated the financial performance of a recent acquisition. SAIC filings also indicate that several the Company's recent acquisitions, which included mysterious payables on top of the reported aggregate consideration, were from an undisclosed related party.

When we consider the totality of the evidence, we conclude that the Company is materially misrepresenting its reported financial performance and that its management is so untrustworthy that CTEG is simply uninvestable.

But in an effort to be conservative, we prepared an estimated valuation. Based on the historical MEP data, we estimate that CTEG's revenues are at least 30% less than reported.¹¹ We also believe, based on the evidence, that at best CTEG is just another player in a crowded, commoditized space littered by thousands of other companies. Accordingly, in our valuation, we normalized the Company's EBIT margins. Rather than using the Company's reported 52% EBIT margins (which we believe are fabricated), our valuation uses a blended average EBIT margin of the other Chinese wastewater treatment and waste disposal companies (28% in 2015).

Glaucus Valuation

RMB'000 except per share value	Reported			CT Environmental Glaucus Adjusted Financials		
	2013	2014	2015	2013	2014	2015
Revenue	384,307	818,116	1,434,959	384,307	818,116	1,434,959
less : est. overstated revenue				-30%	-30%	-30%
Glaucus estimated revenue				269,015	572,681	1,004,471
Other revenue	15,640	19,549	68,701	15,640	19,549	68,701
Other income gain/loss	(560)	(1,433)	94,132	(560)	(1,433)	94,132
Operating expenses	(32,954)	(66,159)	(139,257)	(32,954)	(66,159)	(139,257)
EBIT	224,768	413,247	739,076	80,577	166,705	284,296
% EBIT Margin (based on Comps)	58%	51%	52%	30%	29%	28%
Finance costs	(25,521)	(42,766)	(70,157)	(25,521)	(42,766)	(70,157)
Share of profits of associates	17,853	2,916	1,115	17,853	2,916	1,115
Share of profits of a joint venture	0	461	361	0	461	361
PBT	217,100	373,858	670,395	72,909	127,316	215,615
Taxes	(38,930)	(34,542)	(69,323)	(13,074)	(11,763)	(22,296)
% tax rate	18%	9%	10%	18%	9%	10%
Net income	178,170	339,316	601,072	59,835	115,553	193,319
Net income margin	46%	41%	42%	22%	20%	19%
EPS	0.04	0.06	0.10	0.013	0.021	0.032
% downside				66%	66%	68%
Shares outstanding	4,464,000	5,626,000	6,101,000	4,464,000	5,626,000	6,101,000

Source: Bloomberg; Glaucus estimates

¹¹ MEP data is only available for certain facilities from 2012 through 2014. Our estimate of 30% is based on our assumption that CTEG has continued to exaggerate revenues and profits at facilities in years for which MEP and other data is not available.

Note: We used the average EBIT margin of CTEG's peers operating in China to estimate what we believe to be the Company's real EPS.

Simply normalizing CTEG's EBIT margins implies a significant downside in the price of its shares. By applying a blended P/E ratio of its peers, and applying a 25% corruption discount, we value CTEG's shares at HKD 0.38 per share, an 82% downside from the current stock price.

P/E		
Company Name	Ticker	P/E (ttm)
Beijing Enterprise Water Group	371.HK	16.46
Kangda Int'l Environmental Gr	6136.HK	9.23
China Everbright Int'l	257.HK	17.81
Tianjin Capital Envir'l Prot Gr	1065.HK	14.25
Dongjiang Environmental	895.HK	26.09
Yunnan Water	6839.HK	12.93
	Average	16.13
CT Environmental - Implied Price	1363.HK	0.51
Corruption Discount		25%
Glaucus Valuation		0.38
Current Price		2.14
% Downside		-82%

Source: Bloomberg; Glaucus Estimates

But we believe that even this valuation is too generous to CTEG, given the evidence that the Company has materially deceived investors about its financial performance. In addition, CTEG's 1H 2016 debt balance has ballooned to RMB 2.3 billion. We believe that such debt levels are problematic if the Company is much less profitable than it claims (and thus generates much less EBITDA to service such debts than it claims).

Ultimately, while we conservatively value CTEG's shares at HKD 0.38 per share, given its debt levels and the scale of misrepresentations to investors and regulators, there is a reasonable probability of further downside to the Company's shares.



DISCLAIMER

We are short sellers. We are biased. So are long investors. So is CTEG. So are the banks that raised money for the Company. If you are invested (either long or short) in CTEG, so are you. Just because we are biased does not mean that we are wrong. We, like everyone else, are entitled to our opinions and to the right to express such opinions in a public forum. We believe that the publication of our opinions about the public companies we research is in the public interest.

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