

## AUDITOR'S REPORT

Based on Requirements on Recyclable Quantity Achievement

### **To The Managing Director of ABC Recycling Co Ltd (“Grantee”)**

We have performed the baseline quantity audit against the Requirements on Recyclable Quantity Achievement with respect to the funded project by the Grantee during the period from 1 September 2016 to 30 November 2016.

This auditor's report is confidential and limited to the Auditing Firm, Grantee's representatives, the Secretariat of the Recycling Fund (“the Secretariat”) and Environmental Protection Department (“EPD”). We expressly disclaim any liability or duty to any other party for the content in this report. This report relates only to the items specified below and does not extend to any financial statements of ABC Recycling Co Ltd, taken as a whole.

### **Management's Responsibility**

The Management of the Grantee is responsible for ensuring the declaration of baseline quantity and performance quality and its operation under the funded project in compliance with the Requirements on Recyclable Quantity Achievement.

### **Auditor's Responsibility**

Our responsibility is to certify the declared quantities and express an opinion on the conformity to the requirements on the operation under the funded project. We perform procedures to obtain audit evidence about the transaction records maintained in accordance with the material stock summary. The procedures adopted depend on the auditor's judgement, including the assessment of the risks of the record keeping system. The particulars of the audit and the Grantee are as follows:-

#### Profile of Grantee

Name of Grantee:	ABC Recycling Co Ltd Contact person: Mr Chan Tai Man (Managing Director) Email address: chantm@yahoo.com.hk
Grantee's company address:	No 1234, ABC Industrial Centre, 20 Hip Yip Street, Kwun Tong, Kowloon, Hong Kong

Target recyclable materials for the Recycling Fund project:	<p>Input: Collection of additional 650 tonnes of waste metal and additional 280 tonnes papers from 40 newly engaged local housing estates</p> <p>Output: baling and sales of additional 630 tonnes of sorted metal and 270 tonnes of sorted papers <i>(from the approved application form)</i></p>
Target operation for the Recycling Fund project:	<p>Collection, sorting, compressing, baling and exporting of waste metal and paper with additional vehicles, metal cages, balers and employees <i>(from the approved application form)</i></p>

Particulars of audit

Name of Auditing Firm:	D Chan & Co
Name of auditor:-	David Chan
Name of reviewer for the auditor's report (if applicable):	Not applicable
Audit date:	15 December 2016 for on-site visit
Number of manday for (1) on-site visit and (2) off-site reporting	<p>(1) 1/2 manday on-site visit; and</p> <p>(2) 1/2 manday off-site reporting</p>
Site(s) for recycling operation audited:	No 1234, ABC Industrial Centre, 20 Hip Yip Street, Kwun Tong, Kowloon, Hong Kong
Coverage period:	1 September 2016 to 30 November 2016
Recycling operation during the coverage period:	Collection, sorting, compressing, baling and exporting of waste metal and paper operated by four full-time employees at the premises in an industrial building

Recyclable materials processed by the Grantee during the coverage period <i>(Please specify inputs and outputs respectively, if applicable)</i> :	Turning inputs as raw waste metal and paper into outputs for sale as sorted, compressed and baled waste metal and paper
Sources during the coverage period: <i>(Please indicate the estimated percentage for the respective sources if applicable)</i>	<ul style="list-style-type: none"> <li>(1) Recyclables from walk-in recyclable collectors / scavengers in nearby districts (25%); and</li> <li>(2) Collection of recyclable from housing estates, industrial buildings, construction sites in nearby districts (75%)</li> </ul>
Outlet during the coverage period: <i>(Please indicate the estimated percentage for the respective outlets if applicable)</i>	Sorted, compressed and baled recyclables sold to downstream overseas recyclers (100%) for further processing
Records provided / verified by the Grantees: <i>(Please specify the period for the records provided)</i>	<ul style="list-style-type: none"> <li>(1) Materials Balance Summary (ie. Summary of input and output recyclable materials in excel format);</li> <li>(2) Monthly quantity statement of recyclable materials from supplier X (Sep 2016 and Oct 2016);</li> <li>(3) Receipts issued to supplier X;</li> <li>(4) Debit notes issued from downstream distributors;</li> <li>(5) Receipts issued from company Y on disposing of residue waste</li> <li>(6) Bank statement showing settlement of bills from distributors (Oct 2016 and Nov 2016); and</li> <li>(7) 3-year Service contract between Grantee and distributors dated 1 Dec 2015.</li> </ul>

	Relevant attachment photos enclosed.																																																																																																												
Sampling by auditors (for input and output records)	<p>The overall data management system of the Grantee is reasonably organised. From the Materials Balance Summary, the total input and output quantities of recyclables as follow:</p> <table><tr><td>(In Tonnes)</td><td>Metal</td><td>Paper</td><td>Residual</td></tr><tr><td>Input Quantities</td><td>632.70</td><td>206.4</td><td>-</td></tr><tr><td>Output Quantities</td><td>610.30</td><td>193.1</td><td>-</td></tr><tr><td>Residual Quantities</td><td>-</td><td>-</td><td>35.7</td></tr></table> <p>Number of input record sampled: 20 Receipts issued to supplier X (Coverage: 1.10% of the total input quantities)</p> <table><tr><td>(In Kg)</td><td>Metal</td><td>Paper</td><td>Total</td></tr><tr><td>Receipt Ref No.</td><td></td><td></td><td></td></tr><tr><td>#DN11/07/16</td><td>331</td><td>-</td><td></td></tr><tr><td>#2016091131</td><td>243</td><td>-</td><td></td></tr><tr><td>#2016091955</td><td>-</td><td>320</td><td></td></tr><tr><td>#2016092102</td><td>336</td><td>-</td><td></td></tr><tr><td>#2016092508</td><td>279</td><td>-</td><td></td></tr><tr><td>#2016092713</td><td>421</td><td>-</td><td></td></tr><tr><td>#2016093011</td><td>-</td><td>485</td><td></td></tr><tr><td>#2016100520</td><td>498</td><td>-</td><td></td></tr><tr><td>#2016100703</td><td>501</td><td>-</td><td></td></tr><tr><td>#2016101305</td><td>861</td><td>-</td><td></td></tr><tr><td>#2016101922</td><td>552</td><td>-</td><td></td></tr><tr><td>#2016102002</td><td>702</td><td>-</td><td></td></tr><tr><td>#2016102114</td><td>-</td><td>695</td><td></td></tr><tr><td>#2016102622</td><td>432</td><td>-</td><td></td></tr><tr><td>#2016110305</td><td>162</td><td>-</td><td></td></tr><tr><td>#2016110511</td><td>-</td><td>301</td><td></td></tr><tr><td>#2016111103</td><td>730</td><td>-</td><td></td></tr><tr><td>#2016111309</td><td>269</td><td>-</td><td></td></tr><tr><td>#2016112004</td><td>416</td><td>-</td><td></td></tr><tr><td>#2016112109</td><td>-</td><td>662</td><td></td></tr><tr><td>Sample Input Quantities</td><td>6,733</td><td>2,463</td><td>9,196</td></tr></table>	(In Tonnes)	Metal	Paper	Residual	Input Quantities	632.70	206.4	-	Output Quantities	610.30	193.1	-	Residual Quantities	-	-	35.7	(In Kg)	Metal	Paper	Total	Receipt Ref No.				#DN11/07/16	331	-		#2016091131	243	-		#2016091955	-	320		#2016092102	336	-		#2016092508	279	-		#2016092713	421	-		#2016093011	-	485		#2016100520	498	-		#2016100703	501	-		#2016101305	861	-		#2016101922	552	-		#2016102002	702	-		#2016102114	-	695		#2016102622	432	-		#2016110305	162	-		#2016110511	-	301		#2016111103	730	-		#2016111309	269	-		#2016112004	416	-		#2016112109	-	662		Sample Input Quantities	6,733	2,463	9,196
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No. of samples	15	5	20
Coverage:	1.06%	1.19%	1.10%

Number of output record sampled: 5 Debit notes issued from downstream distributors and 1 receipt issued from company Y on disposing of residue waste (Coverage: 10.69% of the total output and residual quantities)

(In Tonnes)	Metal	Paper	Residual	Total
Debit notes Ref No.				
#DN13/09/16	17.32	-		
#DN20/09/16	-	26.3		
#DN01/10/16	10.03	-		
#DN26/10/16	9.64	-		
#DN14/11/16	21.77	-		
Sample Output Quantities	58.76	26.3	-	85.06
No. of samples	4	1	-	5
Coverage:	9.63%	13.62%	-	10.59%
Disposal Receipt Ref No.			Residual	
WD20/11/2016			0.94	
No. of samples			1	
Coverage:			2.53%	
	Metal	Paper	Residual	Total
Total Sample Output and Residual Quantities	58.76	26.3	0.94	85.96
Total No. of Output and Residual samples	4	1	1	6
Coverage:	9.63%	13.62%	2.53%	10.69%

All samples are selected at random.

<b>(In Tonnes)</b>	<b>Metal</b>	<b>Paper</b>	<b>Residual</b>	<b>Total</b>
<b>Debit notes Ref No.</b>				
#DN13/09/16	17.32	-		
#DN20/09/16	-	26.3		
#DN01/10/16	10.03	-		
#DN26/10/16	9.64	-		
#DN14/11/16	21.77	-		
<b>Sample Output Quantities</b>	<b>58.76</b>	<b>26.3</b>	<b>-</b>	<b>85.06</b>
<b>No. of samples</b>	<b>4</b>	<b>1</b>	<b>-</b>	<b>5</b>
<b>Coverage:</b>	<b>9.63%</b>	<b>13.62%</b>	<b>-</b>	<b>10.59%</b>
<b>Disposal Receipt Ref No.</b>			<b>Residual</b>	
WD20/11/2016			0.94	
<b>No. of samples</b>			<b>1</b>	
<b>Coverage:</b>			<b>2.53%</b>	
	<b>Metal</b>	<b>Paper</b>	<b>Residual</b>	<b>Total</b>
<b>Total Sample Output and Residual Quantities</b>	<b>58.76</b>	<b>26.3</b>	<b>0.94</b>	<b>85.96</b>
<b>Total No. of Output and Residual samples</b>	<b>4</b>	<b>1</b>	<b>1</b>	<b>6</b>
<b>Coverage:</b>	<b>9.63%</b>	<b>13.62%</b>	<b>2.53%</b>	<b>10.69%</b>

All samples are selected at random.

We are engaged to undertake to verify the Recyclable Quantity collected or processed or recycled declared by the Grantee for the baseline condition and conformity to the applicable requirements under the Recyclable Quantity Standard.

*(Latest version: February 2019) This version superseded all prior versions.*

<p>Recyclable Quantity and Throughput (Please provide the Materials Balance Summary or likewise indicating the quantities of collection, production/processing, sales and residue of recyclables along with the auditor's report.)</p>	<p>As per the baseline period from 1 September 2016 to 30 November 2016, input quantity of waste metal ascertained by auditor as 632.7 tonnes (declared as 632.7 tonnes); input quantity of paper ascertained as 206.4 tonnes (declared as 206.4 tonnes).</p> <p>As per the baseline period from 1 September 2016 to 30 November 2016, output quantity of waste metal ascertained by auditor as 610.3 tonnes (declared as 610.3 tonnes); output quantity of paper ascertained as 193.1 tonnes (declared as 193.1 tonnes).</p> <p>35.7 tonnes of residue materials (declared as 35.7 tonnes) were disposed of after sorting out recyclables for processing and sales.</p> <p>All supporting records (Materials Balance Summary, receipts from supplier X, Debit notes issued from downstream distributors and receipt issued from company Y on disposing of residue waste) were duly sampled and verified. In particular, the records involving high value and/or high quantity transaction were selected and verified. There is no discrepancy between the selected samples and the Materials Balance Summary provided by Grantee.</p> <p>From the quantities revealed, wastage during production process was insignificant and sales backlog ratio was healthy as per standard on industry and products. Production volume throughout the year had been steady and no seasonality factor was spotted.</p> <p>The findings showed that it was consistent with clause 4.1 of Requirements on Recyclable Quantity Achievement.</p> <p>Photos supporting the above findings and the Materials Balance Summary are enclosed in the report.</p>
<p>Production confined to the prescribed</p>	<p>Grantee hired vehicles to housing estates, industrial buildings and construction sites in Kwun Tong and nearby</p>

premises	<p>districts to collect and transport the recyclable materials to its premises (No 1234, ABC Industrial Centre, 20 Hip Yip Street, Kwun Tong, Kowloon, Hong Kong). The recyclable collection process was sighted and verified in its premises by auditors to witness walk-in collectors, storage or materials and goods, sorting of waste metal and production facilities such as fork-lift truck, ground balance and baler. It is estimated that the machinery and the employees might generate a capacity for recycled metals at 1200 tonnes and paper at 600 tonnes each year. The output levels generated from the operation process as verified under clause 4.2 of the Requirement should be adequately handled under the capacity.</p> <p>The production activities prescribed in the baseline period were consistent with the description in the Recycling Fund application form.</p> <p>The findings showed that it was consistent with clause 4.2 of Requirements on Recyclable Quantity Achievement.</p> <p>Photos supporting the above findings are enclosed in the report.</p>
Traceability of recyclable	<p>As per the observation and interview, there is one dedicated employee to record the input recyclable materials for both sources by walk-in collectors and its fleets' collection and the sales and export of the baled recyclables manually on daily basis. The receipts issued to the supplier X and debit notes issued from the downstream distributors were sampled at random and sighted and verified.</p> <p>With the comprehensiveness of records and documents in verifying the quantity and sources of recyclable and materials, the findings suffice the fulfilment of clause 4.3 of the Requirements on Recyclable Quantity Achievement.</p> <p>Photos supporting the above findings are enclosed in the report.</p>

Prescribed operation <i>Only applicable to performance target quantity audit</i>	Not applicable to this baseline quantity audit
Source of additional recyclables <i>Only applicable to performance target quantity audit</i>	Not applicable to this baseline quantity audit

Assumption / Limitation / Level of Uncertainty employed and /or identified during the audit

The operating capacities of the machinery and the employees are estimated by the Grantee.

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

## Opinion

In our opinion, the Grantee has, in all material respects, demonstrated conformity to the applicable Requirements on Recyclable Quantity Achievement (*Clauses 4.1, 4.2 and 4.3 for baseline condition*); and attained the collection quantity of 632.7 tonnes of waste metal and 206.4 tonnes of waste paper and the treatment quantity of 610.3 tonnes of processed metal and 193.1 tonnes of processed paper respectively from 1 September 2016 to 30 November 2016.

[signature of the Auditor]

Prepared by: Mr David Chan

Practising Certification number: P05015

[Company chop of the auditing firm] (*Only applicable to certification body*)

D Chan & Co

*Address:* No.1 XXX Road Central, Hong Kong

*Issue Date:* 23 January 2017

[Supporting evidences should be attached to the Auditor's Report to substantiate the findings above.]