THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in New Environmental Energy Holdings Limited, you should at once hand this circular to the purchaser or the transferee, or to the bank, licensed securities dealer, registered institution in securities or other agent through whom the sale or the transfer was effected for transmission to the purchaser or the transferee.

This circular appears for information only and does not constitute an invitation or offer to Shareholders or any other persons to acquire, purchase, or subscribe for securities of the Company.

NEW ENVIRONMENTAL ENERGY HOLDINGS LIMITED
新環保能源控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 03989)

PROPOSED RIGHTS ISSUE ON THE BASIS OF THREE RIGHTS SHARES FOR EVERY TWO SHARES HELD ON THE RECORD DATE AND APPLICATION FOR WHITEWASH WAIVER AND SPECIAL DEALS CONSENT

Financial adviser to
New Environmental Energy Holdings Limited

Quam CAPITAL 華富嘉洛企業融資

Independent financial adviser to
the Independent Board Committee and Independent Shareholders

中國銀河國際 CHINA GALAXY INTERNATIONAL

A letter from the Board is set out on pages 9 to 32 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 33 to 34 of this circular. A letter of advice from China Galaxy to the Independent Board Committee and the Independent Shareholders is set out on pages 35 to 58 of this circular.

To qualify for the Rights Issue, the Shareholders must be registered as a member of the Company on the Record Date, which is currently expected to be Thursday, 16 May 2013. In order to be registered as a member of the Company on the Record Date, the Shareholders must lodge any transfers of Shares (together with the relevant share certificate(s)) with the Share Registrar by 4:00 p.m. on Friday, 10 May 2013. The last day of dealings in Shares on a cum-rights basis is therefore expected to be Wednesday, 8 May 2013. The Shares will be dealt with on an ex-rights basis from Thursday, 9 May 2013.

A notice convening the EGM to be held at Unit 1613–1618, 16/F, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong at 11:00 a.m. on Tuesday, 7 May 2013 is set out on pages EGM-1 to EGM-4 of this circular. If a Shareholder is not able to attend the EGM in person, such Shareholder is requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon together with any power of attorney or other authority (if any) under which it is signed or a certified copy of such power of attorney to the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM. Completion and return of the form of proxy will not preclude a Shareholder from attending and voting in person at the EGM should the Shareholder so desire.

The Rights Issue is conditional upon the fulfillment of the conditions (or, in respect of certain conditions, waiver thereof) as set out in the section headed "Conditions of the Rights Issue" of the "Letter from the Board" in this circular.

The Underwriting Agreement contains provisions granting the Underwriter, by notice in writing, the ability to terminate its obligations thereunder on the occurrence of certain events. The Underwriter may terminate its commitment under the Underwriting Agreement at any time prior to the Latest Time for Termination if: (a) there shall develop, occur, exist or come into effect: (i) any new law or regulation or any change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong or any other place in which any member of the Group conducts or carries on business; or (ii) any local, national or international event or change of a political, military, financial, economic or other nature, or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets; or (iii) any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic or threatened epidemic, terrorism, strike or lock-out; or (iv) the imposition of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange occurring due to exceptional financial circumstances; or (v) the occurrence of any event, or series of events, beyond the control of the Underwriter; which, in the reasonable opinion of the Underwriter: (1) is or will or is likely to have a material adverse effect on the business or financial position of the Group or the Rights Issue; or (2) has or will have or is likely to have a material adverse effect on the success of the Rights Issue or the level of Rights Shares taken up; or (3) makes it inadvisable or inexpedient for the Company to proceed with the Rights Issue; or (b) there comes to the notice of the Underwriter: (i) any matter or event showing any of the warranties was, when given, untrue or misleading or as having been breached in any respect; or (ii) any breach by any of the other parties to the Underwriting Agreement of any of their respective obligations or undertakings under the Underwriting Agreement, then and in any such case the Underwriter may, upon giving notice to the Company, terminate the Underwriting Agreement with immediate effect.

If the Underwriting Agreement is terminated by the Underwriter on or before the aforesaid deadline or does not become unconditional, the Rights Issue will not proceed.

The Shares will be dealt in on an ex-rights basis from Thursday, 9 May 2013. Dealings in the Rights Shares in the nil-paid form will take place from Wednesday, 22 May 2013 to Wednesday, 29 May 2013 (both days inclusive). If the conditions of the Rights Issue are not fulfilled and/or waived on or before 4:00 p.m. on Monday, 10 June 2013 (or such later time and/or date as the Company and the Underwriter may determine), or the Underwriting Agreement is terminated by the Underwriter or the Whitewash Waiver is not granted, the Rights Issue will not proceed. Any persons contemplating buying or selling Shares from the date of the Announcement up to the date on which all the conditions of the Rights Issue are fulfilled, and any dealings in the Rights Shares in their nil-paid form between Wednesday, 22 May 2013 to Wednesday, 29 May 2013 (both days inclusive), bear the risk that the Rights Issue may not become unconditional or may not proceed. Any Shareholders or other persons contemplating dealing in the Shares or nil-paid Rights Shares are recommended to consult their own professional advisers.

* *For identification purposes only*

19 April 2013

CONTENTS

In this circular, the following terms and expressions shall have the following meanings, unless the context otherwise requires:

"Announcement"	the announcement of the Company dated 11 March 2013 in relation to, among other things, the Rights Issue, the Whitewash Waiver, the Special Deals, and the transactions contemplated thereunder
"associate(s)"	has the meaning ascribed thereto in the Listing Rules
"Beijing Capital"	Beijing Capital Co., Ltd., a company established under the laws of the PRC and the shares of which are listed on the Shanghai Stock Exchange
"Board"	the board of Directors
"Business Day"	a day on which licensed banks in Hong Kong are generally open for business throughout their normal business hours (other than a Saturday, Sunday or public holiday)
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"China Galaxy" or "Independent Financial Adviser"	China Galaxy International Securities (Hong Kong) Co., Limited, a licensed corporation to conduct type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue, the Whitewash Waiver, the Special Deals and the transactions contemplated thereunder
"Company"	New Environmental Energy Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the Stock Exchange
"Convertible Bonds"	Convertible Bond I and Convertible Bond II
"Convertible Bond I"	the zero coupon guaranteed convertible bonds issued by the Company to Waste Resources G.P. Limited on 13 April 2010 in the principal amount of HK$156,000,000, details of which were set out in the announcements of the Company dated 29 January 2010, 13 April 2010 and 16 April 2013 and circular of the Company dated 12 February 2010

"Convertible Bond II"	the convertible bonds issued by the Company to the Underwriter, in the principal amount of HK$100,000,000 by two instalments of HK$50,000,000 each on 11 September 2012 and 31 December 2012 respectively, details of which were set out in the announcements of the Company dated 6 December 2011, 31 August 2012 and 31 December 2012 and circular of the Company dated 31 December 2011
"Convertible Notes"	Convertible Note I and Convertible Note II
"Convertible Note I"	the convertible notes issued by the Company to Simple Success Investments Limited (which was subsequently transferred to the Underwriter) in the principal amount of HK$488,000,000 on 11 December 2009, with outstanding principal amount of HK$177,000,000 as at the Latest Practicable Date, details of which were set out in the announcements of the Company dated 23 September 2009 and 11 December 2009 and circular of the Company dated 23 November 2009
"Convertible Note II"	the convertible notes issued by the Company to Bright Good Limited (which was subsequently transferred to Winner Performance Limited) in the principal amount of HK$188,040,000 on 11 December 2009, with outstanding principal amount of HK$16,000,000 as at the Latest Practicable Date, details of which were set out in the announcements of the Company dated 23 September 2009 and 11 December 2009 and circular of the Company dated 23 November 2009
"Director(s)"	the director(s) of the Company
"EAF(s)"	the excess application form(s) to be issued in connection with the Rights Issue
"EGM"	the extraordinary general meeting of the Company to be convened to consider, and if thought fit, approve, among other things, the Rights Issue, the Whitewash Waiver, the Special Deals and the transactions contemplated thereunder
"Excluded Shareholder(s)"	the Overseas Shareholder(s) whom the Directors, after making enquiry regarding the legal restrictions under the laws of the relevant place and the requirements of the relevant regulatory body or stock exchange in the place where the Overseas Shareholder(s) resides, consider it necessary or expedient to exclude them from the Rights Issue

"Executive"	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
"Final Acceptance Date"	3 June 2013, being the last day for acceptance and payment of the Rights Shares, or such other date as the Company and the Underwriter may agree in writing
"Group"	the Company and its subsidiaries
"HKSCC"	Hong Kong Securities Clearing Company Limited
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	the independent board committee of the Company comprising all the independent non-executive Directors, namely Mr. Pao Ping Wing, Mr. Cheng Kai Tai, Allen, Mr. Li Baochun and Ms. Chan Yee Wah, Eva, which has been formed to advise the Independent Shareholders in respect of the terms and conditions of the Rights Issue, the Whitewash Waiver, the Special Deals and the transactions contemplated thereunder
"Independent Shareholders"	Shareholders other than the Underwriter, Waste Resources G.P. Limited, any of their associates and parties acting in concert with any of them and Shareholders who are interested in or involved in the Rights Issue, the Whitewash Waiver and/or the Special Deals
"Last Trading Day"	27 February 2013, being the last trading day of the Shares prior to the release of the Announcement
"Latest Practicable Date"	16 April 2013, being the latest practicable date for the purpose of ascertaining certain information for inclusion herein
"Latest Time for Acceptance"	4:00 p.m. on 3 June 2013 or such later time or date as may be agreed between the Company and the Underwriter, being the latest time for acceptance of, and payment for, the Rights Shares as described in the Prospectus
"Latest Time for Termination"	4:00 p.m. on 10 June 2013 or such later time as may be agreed between the Company and the Underwriter, being the latest time by which the Underwriter may terminate the Underwriting Agreement
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange

"Overseas Shareholder(s)"	Shareholder(s) whose names appear on the register of members of the Company at the close of business on the Record Date and whose address(es) as shown on such register is/are outside Hong Kong
"PAL(s)"	the provisional allotment letter(s) to be issued in connection with the Rights Issue
"PRC"	the People's Republic of China which for the purpose of this circular, shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Principal Shares"	the Shares owned by the Underwriter as at the date of the Underwriting Agreement, being 299,022,000 Shares
"Prospectus"	the prospectus to be issued to the Shareholders containing details of the Rights Issue
"Posting Date"	20 May 2013 or such later date as may be designated by the Company, being the date of posting the Rights Issue Documents to Qualifying Shareholders and the Prospectus to Excluded Shareholders (if and to the extent legally and practically permissible) for their information
"Qualifying Shareholder(s)"	Shareholder(s), other than the Excluded Shareholders, whose name(s) appear on the register of members of the Company at the close of business on the Record Date
"Record Date"	16 May 2013 or such other date as may be agreed between the Company and the Underwriter, being the date by reference to which entitlements to the Rights Issue are to be determined
"Relevant Period"	the period commencing six months preceding the date of the Announcement and ending on the Latest Practicable Date
"Rights Issue"	the issue of not less than 2,793,385,557 but not more than 2,918,276,793 Rights Shares at the Subscription Price on the basis of three Rights Shares for every two existing Shares held on the Record Date payable in full on acceptance
"Rights Issue Documents"	the Prospectus, the PAL and the EAF
"Rights Share(s)"	new Share(s) to be allotted and issued under the Rights Issue

"Set-off Arrangement"	the arrangement agreed between the Underwriter and the Company to set off the total Subscription Price of the Rights Shares to be subscribed under the Rights Issue by the Underwriter up to HK$177,000,000 against the outstanding principal amount of the Convertible Note I, while any balance thereof (if any) will represent the remaining outstanding principal amount of the Convertible Note I, and the amendment to the terms of the Convertible Note I as stated in the paragraph headed "Amendment to the terms of the Convertible Note I" in the "Letter from the Board" in this circular
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	share(s) of HK$0.1 each in the share capital of the Company
"Share Options"	the outstanding options to subscribe for 4,101,532 new Shares granted to the Directors and employees of the Group pursuant to the share option scheme approved by the Shareholders on 15 June 2006
"Shareholder(s)"	holder(s) of Share(s)
"Special Deals"	for the purpose of applying for the Whitewash Waiver, the Set-off Arrangement and the possible repayment of the Convertible Bond I using the net proceeds from the Rights Issue
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription Price"	the subscription price of HK$0.2 per Rights Share
"Takeovers Code"	the Code on Takeovers and Mergers
"Undertaking"	the irrevocable undertaking in the Underwriting Agreement given by the Underwriter in favour of the Company, details of which are set out in the paragraph headed "Issue Statistics" under the section headed "Proposed Rights Issue" in the "Letter from the Board" in this circular
"Underwriter"	Beijing Capital (Hong Kong) Limited, a company incorporated with limited liability under the laws of Hong Kong and the underwriter for the Rights Issue

"Underwriting Agreement"	the underwriting agreement dated 27 February 2013 entered into between the Company and the Underwriter in relation to the underwriting and the relevant arrangements in respect of the Rights Issue
"Underwritten Shares"	not less than 2,344,852,557 but not more than 2,469,743,793 Rights Shares, being all Rights Shares deducting the Rights Shares to be allotted to the Underwriter on an assured basis, which have been undertaken to be accepted and subscribed by it pursuant to the Underwriting Agreement
"Whitewash Waiver"	a waiver required to be granted by the Executive pursuant to Note 1 to dispensations from Rule 26 of the Takeovers Code in respect of the obligation of the Underwriter to make a general offer for all the issued Shares not already owned or agreed to be acquired by the Underwriter and parties acting in concert with it which may otherwise arise as a result of the subscription of the Rights Shares by the Underwriter pursuant to the Underwriting Agreement and/or pursuant to its application for any excess Rights Shares that is accepted by the Company
"%"	per cent.
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC

The expected timetable for the Rights Issue is set out below:

Event	**Date** *(Note 1)*
Latest time for lodging transfers of Shares in order to qualify for attendance and voting at the EGM	4:00 p.m. on Friday, 3 May 2013
Register of members of the Company closed for the EGM (both days inclusive)	Monday, 6 May 2013 to Tuesday, 7 May 2013
Latest time for lodging proxy form for the EGM (not less than 48 hours before time of the EGM)	11:00 a.m. on Sunday, 5 May 2013
Record date for the EGM	Tuesday, 7 May 2013
EGM	11:00 a.m. on Tuesday, 7 May 2013
Announcement of results of the EGM to be published on the Stock Exchange website	Tuesday, 7 May 2013
Register of members of the Company re-opens	Wednesday, 8 May 2013
Last day of dealings in Shares on a cum-rights basis	Wednesday, 8 May 2013
First day of dealings in Shares on an ex-rights basis	Thursday, 9 May 2013
Latest time for lodging transfer of Shares in order to qualify for the Rights Issue	4:00 p.m. on Friday, 10 May 2013
Register of members of the Company closes for the Right Issue (both days inclusive)	Monday, 13 May 2013 to Thursday, 16 May 2013
Record date for the Rights Issue	Thursday, 16 May 2013
Register of members of the Company re-opens	Monday, 20 May 2013
Despatch of the Rights Issue Documents	Monday, 20 May 2013
First day of dealings in nil-paid Rights Shares	Wednesday, 22 May 2013
Latest time for splitting of nil-paid Rights Shares	4:00 p.m. on Friday, 24 May 2013

Last day of dealings in nil-paid Rights Shares	Wednesday, 29 May 2013
Latest time for acceptance of and payment for Rights Shares and for application and payment for excess Rights Shares *(Note 2)*	4:00 p.m. on Monday, 3 June 2013
Underwriting Agreement becoming unconditional	4:00 p.m. on Monday, 10 June 2013
Announcement of results of allotment of the Rights Issue to be published on the Stock Exchange website	Tuesday, 11 June 2013
Despatch of certificates for fully-paid Rights Shares and refund cheques on or before	Thursday, 13 June 2013
Commencement of dealings in full-paid Rights Shares	9:00 a.m. on Friday, 14 June 2013

Notes:

1. All times in this circular refer to Hong Kong time.

2. Effect of bad weather on the latest time for acceptance of and payment for Rights Shares:

   The Latest Time for Acceptance will be postponed if there is:

   - a tropical cyclone warning signal number 8 or above; or
   - a "black" rainstorm warning,

   in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on Monday, 3 June 2013. Instead, the Latest Time for Acceptance will be rescheduled to 12:00 noon on the next Business Day which does not have either of those warnings in force at any time between 9:00 a.m. and 12:00 noon.

If the Latest Time for Acceptance is postponed in accordance with the foregoing, the dates mentioned above may be affected. An announcement will be made by the Company in such event accordingly.

NEW ENVIRONMENTAL ENERGY HOLDINGS LIMITED
新環保能源控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 03989)

Executive Directors:
Mr. Yu Chang Jian *(Chairman)*
Mr. Cao Guo Xian *(Chief Executive Officer)*
Mr. Liu Xiao Guang
Mr. Marcello Appella
Mr. Tang Zhi Bin
Mr. Xue Huixuan

Non-executive Director:
Mr. Lim Jui Kian

Alternate non-executive Director:
Mr. Cai Qiao Herman
(Alternate Director to Mr. Lim Jui Kian)

Independent non-executive Directors:
Mr. Pao Ping Wing
Mr. Cheng Kai Tai, Allen
Mr. Li Baochun
Ms. Chan Yee Wah, Eva

Registered Office:
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head Office and Principal Place of Business:
Unit 1613–1618, 16/F.,
Bank of America Tower,
12 Harcourt Road, Central,
Hong Kong

19 April 2013

To the Shareholders and, for information only,
the holders of the Share Options,
the Convertible Bonds and the Convertible Notes

Dear Sir or Madam,

PROPOSED RIGHTS ISSUE ON THE BASIS OF THREE RIGHTS SHARES FOR EVERY TWO SHARES HELD ON THE RECORD DATE AND APPLICATION FOR WHITEWASH WAIVER AND SPECIAL DEALS CONSENT

INTRODUCTION

Reference is made to the Announcement in relation to, among other things, the Rights Issue, the Whitewash Waiver and the Special Deals. It was announced that the Company proposed to raised not less than approximately HK$558.7 million but not more than approximately HK$583.7 million, before expenses by issuing not less than 2,793,385,557 Rights Shares (assuming no outstanding Share Options, Convertible Bond I and Convertible Note II has been exercised/converted before the Record Date) but not more than 2,918,276,793 Rights Shares (assuming all outstanding Share Options, Convertible Bond I and Convertible Note II have been exercised/converted in full before the Record Date) at the Subscription Price of HK$0.20 per Rights Share on the basis of three Rights Shares for every two existing Shares in issue and held on the Record Date.

The Independent Board Committee comprising all the independent non-executive Directors has been established by the Company to advise the Independent Shareholders on the terms of the Rights Issue, the Whitewash Waiver, the Special Deals, and the transactions contemplated thereunder. Given that (i) the Set-off Arrangement may be subject to the consent of Waste Resources G.P. Limited if the Convertible Bond I remains outstanding upon the implementation of the Set-off Arrangement; (ii) the non-executive Director, Mr. Lim Jui Kian, was nominated by Waste Resources G.P. Limited; and (iii) the intended use of proceeds of the Rights Issue includes repayment of debt which may include the Convertible Bond I, Mr. Lim Jui Kian may be subject to potential conflict of interest. As such, it is not appropriate to include Mr. Lim Jui Kian in the Independent Board Committee. China Galaxy has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

The purpose of this circular is to provide you with, among other things, (i) details of the Rights Issue, the Whitewash Waiver, the Special Deals, and the transactions contemplated thereunder; (ii) a letter from the Independent Board Committee; (iii) a letter of advice from China Galaxy to the Independent Board Committee and the Independent Shareholders in relation to the Rights Issue, the Whitewash Waiver, the Special Deals and the transactions contemplated thereunder; and (iv) the notice of the EGM.

PROPOSED RIGHTS ISSUE

Issue statistics

Basis of the Rights Issue:	Three Rights Shares for every two existing Shares held on the Record Date
Subscription Price:	HK$0.2 per Rights Share
Number of Shares in issue as at the Latest Practicable Date:	1,862,257,039 Shares
Number of new Shares to be issued upon full exercise of the Convertible Bond I, Convertible Note II and the Share Options:	83,260,824 Shares

Number of Rights Share:	Not less than 2,793,385,557 (assuming no outstanding Share Options, Convertible Bond I and Convertible Note II has been exercised/converted before the Record Date) but not more than 2,918,276,793 Rights Shares (assuming all outstanding Share Options, Convertible Bond I and Convertible Note II have been exercised/converted in full before the Record Date)
Number of Underwritten Shares:	Not less than 2,344,852,557 but not more than 2,469,743,793 Rights Shares
Aggregate nominal value of Shares to be issued:	Not less than HK$279,338,555.7 but not more than HK$291,827,679.3
Enlarged issued share capital of the Company upon completion of the Rights Issue:	Not less than 4,655,642,596 but not more than 4,863,794,656 Rights Shares
Gross proceeds raised before expenses and setting off the outstanding principal amount of the Convertible Note I:	Not less than approximately HK$558.7 million but not more than approximately HK$583.7 million

The number of Rights Shares to be issued pursuant to the terms of the Rights Issue represents 150% of the existing issued share capital of the Company and 60% of the enlarged issued share capital of the Company immediately upon completion of the Rights Issue.

The number of Rights Shares which may be allotted and issued pursuant to the Rights Issue will be increased in proportion to any additional new Shares which may be allotted and issued pursuant to the exercise of the subscription rights and the conversion rights attaching to the Share Options, the Convertible Bonds and Convertible Notes on or before the Record Date.

Pursuant to the Undertaking, the Underwriter has irrevocably undertaken to the Company that (i) it will remain the beneficial and registered owner of the number of Principal Shares and not more than the number of Principal Shares up to the Final Acceptance Date; (ii) it will take up and accept the rights entitlement in full under the Rights Issue in respect of the Principal Shares prior to 4:00 p.m. on the Final Acceptance Date; and (iii) it will not dispose of or transfer or exercise any of the convertible rights under both the Convertible Bond II and Convertible Note I held by it on or before the Final Acceptance Date.

If all the subscription rights and the conversion rights attaching to the Share Options, the Convertible Bond I and the Convertible Note II are duly exercised, and Shares are allotted and issued pursuant to such exercise on or before the Record Date, the number of issued Shares is expected to be increased to 1,945,517,863 and the number of Rights Shares that may be issued pursuant to the Rights Issue is expected to be increased to 2,918,276,793.

On 15 April 2013, the Company received an irrevocable put option exercise notice from Waste Resources G.P, Limited requesting the redemption of Convertible Bond I, therefore Convertible Bond I will not be converted into Shares. As such, the actual maximum Rights Shares proposed to be issued shall be 2,820,776,793.

Save for the Convertible Bonds, the Convertible Notes and the Share Options, the Company has no outstanding derivatives, options, warrants, conversion rights or other similar rights which are convertible or exchangeable into Shares as at the Latest Practicable Date.

Save as disclosed above, no Shareholder has undertaken to take up his or its entitlement in full or in part of the Rights Shares under the Rights Issue.

Subscription price

The Subscription Price of HK$0.2 per Rights Share is payable in full when a Qualifying Shareholder accepts his/her/its provisional allotment under the Rights Issue or applies for excess Rights Shares or when a transferee of nil-paid Rights Shares subscribes for the Rights Shares.

The Subscription Price of HK$0.2 per Rights Share represents:

(i) a discount of approximately 42.9% to the closing price of HK$0.350 per Share as quoted on the Stock Exchange on 27 February 2013, being the Last Trading Day;

(ii) a discount of approximately 42.0% to the average closing price of HK$0.345 per Share for the last five consecutive trading days as quoted on the Stock Exchange up to and including the Last Trading Day;

(iii) a discount of approximately 39.4% to the average closing price of HK$0.330 per Share for the last ten consecutive trading days as quoted on the Stock Exchange up to and including the Last Trading Day;

(iv) a discount of approximately 23.1% to the theoretical ex-right price of HK$0.260 per Share calculated based on the closing price per Share as quoted on the Stock Exchange on the Last Trading Day;

(v) a discount of approximately 31.0% to the closing price of HK$0.290 per Share as quoted on the Stock Exchange on 16 April 2013, being the Latest Practicable Date; and

(vi) a premium of approximately 545.2% to the unaudited consolidated net tangible asset value per Share of approximately HK$0.031 (based on the latest published audited net tangible asset value of the Group as at 31 December 2012 and 1,862,257,039 Shares in issue as at the Latest Practicable Date).

The Subscription Price was determined after arm's length negotiations between the Company and the Underwriter with reference to the then prevailing market price and the financial requirements of the Company. As the Rights Shares are offered to all Qualifying Shareholders, the Directors considered that the aforesaid discount would attract the Qualifying Shareholders to participate in the Rights Issue and maintain their shareholdings accordingly. The Directors (including the independent non-executive Directors who have considered the advice from the Independent Financial Adviser) consider the terms of the Rights Issue, including the Subscription Price, are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

Conditions of the Rights Issue

The Rights Issue is conditional upon the satisfaction of the following conditions:

(a) the passing at the EGM of necessary resolutions by the Independent Shareholders to approve:

(i) the Rights Issue;

(ii) the Whitewash Waiver; and

(iii) the Set-off Arrangement

in accordance with the Listing Rules and the Takeovers Code;

(b) the granting of the Whitewash Waiver to the Underwriter by the Executive on or before the Posting Date;

(c) the granting of the written approval from the Executive (to the extent required under Rule 25 of the Takeovers Code) and, where necessary, other consents in respect of the Set-off Arrangement;

(d) the signing by any two Directors of two copies each of the Rights Issue Documents;

(e) the registration of one such copy signed by any two Directors of the Rights Issue Documents (and all documents required to be attached thereto) by the Registrar of Companies in Hong Kong;

(f) the posting of the Rights Issue Documents to the Qualifying Shareholders and (subject to the restrictions, if any, under the relevant overseas laws and regulations) the posting of the Prospectus stamped "For Information Only" to the Excluded Holders, in each case, on the Posting Date;

(g) the Underwriter (and where necessary, its holding companies) having obtained all relevant approvals in accordance with PRC laws and regulations, including but not limited to approvals from the relevant PRC government authorities, as the case may be required in connection with the Rights Issue and the underwriting exercise pursuant to the Underwriting Agreement;

(h) obligations of the Underwriter under the Underwriting Agreement not being terminated by the Underwriter in accordance with the terms of the Underwriting Agreement;

(i) in respect of the warranties and the undertakings contained in the Underwriting Agreement, by the Latest Time for Termination, (A) no material breach of any of the warranties or the undertakings having come to the knowledge of the Underwriter and the Company, and (B) a matter not having arisen which would reasonably be expected to give rise to a material breach or a material claim; and

(j) the Listing Committee of the Stock Exchange granting or agreeing to grant (subject only to allotment) listings of and permission to deal in the Rights Shares, in nil paid and fully paid forms, by no later than the business day prior to the commencement of trading of the Rights Shares and such permission not being withdrawn or revoked prior to the Latest Time for Termination.

The conditions (a)(iii) and (c) above can be waived by the Underwriter at any time before the Posting Date by notice in writing to the Company. If conditions (a)(iii) and/or (c) are not fulfilled and are waived by the Underwriter, the Underwriter will pay the total Subscription Price by cheques or cashier order in the full amount payable to the Company. Save as aforesaid, all other conditions set out above cannot be waived by any party to the Underwriting Agreement. In the event of the conditions (a) to (i) above have not been fulfilled or waived (as appropriate and applicable) on or before the Posting Date or condition (j) has not been fulfilled on or before the time prescribed above, or if the Underwriting Agreement shall be terminated pursuant to the terms as set out in the paragraph headed "Termination of the Underwriting Agreement" below, all obligations and liabilities of the parties thereunder shall immediately cease and be null and void and no party shall have any claim against the others save for any antecedent breaches, provided however that the Company shall remain liable to pay the costs charges and expenses howsoever of or incidental to the Rights Issue.

As at the Latest Practicable Date, none of the conditions has been fulfilled.

Fractional entitlements

The Company will not provisionally allot fractions of Rights Shares. All fractions of Rights Shares will be aggregated and sold in the market and, if a premium (net of expenses) can be achieved, the Company will keep the net proceeds for its own benefit. Any unsold fractions of Rights Shares will be available for excess application.

Status of the Rights Shares

Holders of the Rights Shares will be entitled to receive all future dividends and distributions which are declared after the date of allotment and issue of the Rights Shares. Save as aforesaid, the Rights Shares, when allotted, issued and fully paid, will rank pari passu with the then existing Shares in issue on the date of allotment of the Rights Shares in all respects.

Dealings in the Rights Shares in both nil-paid and fully-paid forms will be subject to the payment of stamp duty in Hong Kong and any other applicable fees and charges in Hong Kong.

Save for the Underwriter, the Board has not received any information from any substantial Shareholders or Directors of their intention to take up the Rights Shares provisionally allotted or offered to them or to be provisionally allotted or offered to them.

Applications for excess Rights Shares

Qualifying Shareholders may apply for any unsold entitlements of the Excluded Shareholders, any unsold fractions of the Rights Shares and any Rights Shares provisionally allotted but not accepted by any Qualifying Shareholders or otherwise subscribed for by transferees of nil-paid Rights Shares. Application for excess Rights Shares can be made by completing the EAF and lodging the same with a separate remittance for the excess Rights Shares. The Directors will allocate the excess Rights Shares at their discretion on a fair and equitable basis on the following principles:

(1) subject to the availability of excess Rights Shares, preference will be given to applications for less than a board-lot of Rights Shares where they appear to the Directors that such applications are made to top up odd-lot holdings to board-lot holdings (unless the total number of excess Rights Shares is not sufficient to top-up all odd-lots into whole board-lots) and that such applications are not made with the intention to abuse this mechanism; and

(2) subject to availability of excess Right Shares after allocation under principle (1) above, the excess Rights Shares will be allocated to the Qualifying Shareholders who have applied for excess Rights Shares on pro-rata basis by reference to the number of excess Rights Shares they have applied for, with flexibility to round up to whole board-lots at the discretion of the Directors. No reference will be made to the Rights Shares comprised in applications by PAL or the existing number of Shares held by the Qualifying Shareholders.

Shareholders with their Shares held by a nominee company should note that the Directors will regard the nominee company as a single Shareholder according to the register of members of the Company. Accordingly, the Shareholders should note that the aforesaid arrangement in relation to the allocation of excess Rights Shares will not be extended to beneficial owners individually. The Shareholders with their Shares held by a nominee company are advised to consider whether they would like to arrange registration of the relevant Shares in the name of the beneficial owners prior to the Record Date.

For Shareholders whose Shares are held by their nominee(s) and would like to have their names registered on the register of members of the Company, they must lodge all necessary documents for completion of the relevant registration with the Company's branch share registrar by 4:00 p.m. on Friday, 10 May 2013.

Certificate for Rights Shares

Subject to the fulfillment of the conditions of the Rights Issue, share certificates for all fully-paid Rights Shares and refund cheques in respect of wholly or partially unsuccessful applications for excess Rights Shares (if any) are expected to be posted by ordinary mail to the Qualifying Shareholders and unsuccessful applicants who have validly accepted and applied for (where appropriate), and paid for the Rights Shares on Thursday, 13 June 2013 at their own risk. Each Shareholder will receive one share certificate for all allotted Rights Shares.

Qualifying Shareholders

To qualify for the Rights Issue, a Qualifying Shareholder must be registered as a member of the Company as at the close of business on the Record Date. In order to be registered as members of the Company on the Record Date, all transfers of Shares must be lodged (together with the relevant share certificate(s)) with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong by 4:00 p.m. on Friday, 10 May 2013. It is expected that the last day of dealings in the Shares on a cum-rights basis is Wednesday, 8 May 2013 and the Shares will be dealt with on an ex-rights basis from Thursday, 9 May 2013.

The Company will send the Rights Issue Documents to the Qualifying Shareholders on the Posting Date. The Company will send only the Prospectus to the Excluded Shareholders (if any) for information purpose only on the same date.

Excluded Shareholders

The Rights Issue Documents will not be registered or filed under the applicable securities legislation of any jurisdiction other than Hong Kong and Cayman Islands. The Company will exclude from the Rights Issue those Overseas Shareholders whom the Directors, after making enquiry regarding the legal restrictions under the laws of the relevant places and the requirements of the relevant regulatory bodies or stock exchanges, consider it necessary or expedient to do so. The Company will send a copy of the Prospectus to each of the Excluded Shareholders for information only, but not PAL or EAF.

As at the Latest Practicable Date, there were no Shareholders whose addresses are outside Hong Kong. The Company will continue to ascertain whether there are any other Overseas Shareholders on the Record Date and will, if necessary, make further enquiries with legal adviser(s) in other overseas jurisdiction(s) regarding the feasibility of extending the Rights Issue to such other Overseas Shareholders on the Record Date and make relevant disclosures in the Prospectus.

Arrangements will be made for Rights Shares which would otherwise be provisionally allotted in nil-paid form to the Excluded Shareholders to a nominee of the Company which will arrange for the sale of such nil-paid Rights Shares as soon as practicable after dealings in the nil-paid Rights Shares commence on the Stock Exchange, if a premium (net of expense) can be obtained. The nominee will thereafter account to the Company for the net proceeds of sale (after deduction of the expenses of sales). Any unsold nil-paid Rights Shares will be available for Excess Application. The net proceeds of sale of such nil-paid Rights Shares representing fractional entitlements shall be retained by the Company for its own benefit.

Further information in this connection will be set out in the Rights Issue Documents containing, among other things, details of the Rights Issue, to be despatched to the Qualifying Shareholders on the Posting Date. The Company will send copies of the Prospectus (without the PAL and the EAF) to the Excluded Shareholders for their information only. No person receiving any of the Rights Issue Documents in any jurisdiction other than Hong Kong may treat it as an offer or invitation to apply for the Rights Shares.

It is the responsibility of anyone outside Hong Kong wishing to make an application for the Rights Shares to satisfy himself/herself/itself as to the observance of the laws and regulations of the relevant jurisdictions, including the obtaining of any government or other consents and to pay any taxes and duties required to be paid in such jurisdictions, in connection therewith. Any acceptance of the offer of the Rights Shares by any person will be deemed to constitute a representation and warranty from such person to the Company that these local laws and requirements have been fully complied with. If you are in doubt as to your position, you should consult your own professional advisers. The Company reserves the right to refuse to accept any acceptances of or applications for the Rights Shares where it believes that doing so would violate applicable securities or other laws or regulations of any territory or jurisdiction.

The Overseas Shareholders, so long as they are Independent Shareholders, will be entitled to vote at the EGM to consider, and if thought fit, approve, the Rights Issue, the Whitewash Waiver, the Special Deals, and the transactions contemplated thereunder.

Application for listing

The Company will apply to the Listing Committee of the Stock Exchange for the listings of, and permission to deal in, the Rights Shares in both nil-paid and fully-paid forms. The nil-paid Rights Shares shall have the same board lot size as the Shares, i.e. 2,000 Shares in one board lot.

No part of the share capital of the Company is listed or dealt in, and no listing or permission to deal is being or is proposed to be sought, on any other stock exchange other than the Stock Exchange. Subject to the granting of the listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms on the Stock Exchange as well as compliance with the stock admission requirements of HKSCC, the Rights Shares in both their nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the respective commencement dates of dealings in the Rights Shares in both their nil-paid and fully-paid forms or such other dates as may be determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Dealings in the Rights Shares in their nil-paid and fully-paid forms will be subject to payment of stamp duty in Hong Kong.

Closure of register of members

The register of members of the Company will be closed from Monday, 6 May 2013 to Tuesday, 7 May 2013 (both days inclusive) for the purpose of, among other things, determining the identity of the Shareholders entitled to attend and vote at the EGM.

The register of members of the Company will be closed from Monday, 13 May 2013 to Thursday, 16 May 2013 (both days inclusive) for the purpose of, among other things, determining the eligibility for the Rights Issue.

No transfer of Shares will be registered during the above book closure periods.

Qualifying Shareholders who do not take up the Rights Shares to which they are entitled should note that their shareholding in the Company will be diluted.

THE USE OF PROCEEDS AND REASONS FOR THE RIGHT ISSUE AND THE SPECIAL DEALS

The use of proceeds

Based on the minimum number of 2,793,385,557 Rights Shares proposed to be issued, the gross proceeds from the Rights Issue are approximately HK$558.7 million. Assuming none of the Rights Shares is accepted or applied for by the Qualifying Shareholders other than the Underwriter and that the Set-off Arrangement is implemented, the net proceeds from the Rights Issue after deducting (i) the expenses; and (ii) the outstanding principal amount of the Convertible Note I of HK$177 million being wholly set off against the total Subscription Price of the Rights Shares to be taken up and payable by the Underwriter of an equal amount as explained in the section headed "Payment of Rights Shares subscription by the Underwriter" in this circular, are estimated to be approximately HK$377.7 million. Assuming none of the Rights Shares is accepted or applied for by the Qualifying Shareholders other than the Underwriter and that the Set-off Arrangement is not implemented, the net proceeds from the Rights Issue, after deducting the expenses, are estimated to be approximately HK$554.7 million.

Based on the minimum number of 2,793,385,557 Rights Shares proposed to be issued, assuming all of the Rights Shares are accepted or applied for by the Qualifying Shareholders and that the Set-off Arrangement is implemented, the net proceeds from the Rights Issue after deducting (i) the expenses; and (ii) approximately HK$89.7 million to be set off against an equal amount of the outstanding principal amount of the Convertible

Note I for the 448,533,000 Rights Shares to be subscribed by the Underwriter pursuant to its Undertaking, are estimated to be approximately HK$465.0 million. Assuming all of the Rights Shares are accepted or applied for by the Qualifying Shareholders and that the Set-off Arrangement is not implemented, the net proceeds from the Rights Issue, after deducting the expenses, are estimated to be approximately HK$554.7 million.

On 15 April 2013, the Company received an irrevocable put option exercise notice from Waste Resources G.P, Limited requesting the redemption of Convertible Bond I, therefore Convertible Bond I will not be converted into Shares. As such, the actual maximum Rights Shares proposed to be issued shall be 2,820,776,793.

Based on the actual maximum number of Rights Shares of 2,820,776,793 (taking into account that the Convertible Bond I will be redeemed and not be converted) proposed to be issued, the gross proceeds from the Rights Issue are approximately HK$564.2 million. Assuming none of the Rights Shares is accepted or applied for by the Qualifying Shareholders other than the Underwriter and that the Set-off Arrangement is implemented, the net proceeds from the Rights Issue after deducting (i) the expenses; and (ii) the outstanding principal amount of the Convertible Note I of HK$177 million being wholly set off against the total Subscription Price of the Rights Shares to be taken up and payable by the Underwriter of an equal amount, are estimated to be approximately HK$383.2 million. Assuming none of the Rights Shares is accepted or applied for by the Qualifying Shareholders other than the Underwriter and that the Set-off Arrangement is not implemented, the net proceeds from the Rights Issue, after deducting the expenses, are estimated to be approximately HK$560.2 million.

Based on the actual maximum number of Rights Shares of 2,820,776,793 (taking into account that the Convertible Bond I will be redeemed and not be converted) proposed to be issued, assuming all of the Rights Shares are accepted or applied for by the Qualifying Shareholders and that the Set-off Arrangement is implemented, the net proceeds that the Company would receive from the Rights Issue after deducting (i) the expenses; and (ii) approximately HK$89.7 million being set off against an equal amount of the outstanding principal amount of the Convertible Note I for the 448,533,000 Rights Shares to be subscribed by the Underwriter pursuant to its Undertaking, are approximately HK$470.5 million. Assuming all of the Rights Shares are accepted or applied for by the Qualifying Shareholders and that the Set-off Arrangement is not implemented, the net proceeds from the Rights Issue, after deducting the expenses, are estimated to be approximately HK$560.2 million.

Given that the minimum net proceeds of the Rights Issue received by the Group are estimated to be approximately HK$377.7 million, considering the current liabilities of the Group, the Company has earmarked approximately HK$210 million for repayment of debt (which may include the Convertible Bond I with outstanding principal amount of HK$156 million). The remaining net proceeds of approximately HK$167.7 million will be applied as to approximately HK$160 million for funding of mergers and acquisitions and other investments in waste treatment and/or waste-to-energy projects in the PRC, and the balance for the general working capital of the Group, including administrative and interest expenses. The Company is currently conducting studies and preliminary discussions in relation to certain waste treatment projects in the PRC. The possible acquisition of the Huizhou City Solid Waste Incineration Power Generation Project as announced by the Company on 2 April 2013 has been identified by the Company. The estimated capital requirement for the Huizhou project amounts to approximately RMB650 million. No agreement has been entered into and no terms have been agreed upon by the Group in respect of any mergers and acquisitions and other investments which have not been disclosed by the Company up to the Latest Practicable Date.

Reasons for the Right Issue and the Special Deals

The Group is principally engaged in provision of waste treatment technologies and services which specialises in technology development, design, system integration, project investment, consultancy, operation and maintenance of waste treatment facilities, especially waste-to-energy projects.

As stated in the Company's annual report for the year ended 31 December 2012, in expectation of the great market potential underscored by favourable national policies, the Group will endeavour to seize opportunities in the environmental protection and alternative energy industries to deliver stronger results for the Shareholders. The Directors consider that taking into account the prevailing market conditions, it would be in the interests of the Company and the Shareholders as a whole to raise long-term equity funding for potential acquisitions or new investments as and when opportunities arise. It is also intended that the net proceeds of the Rights Issue be used for the repayment of debts which will enable the Group improve its gearing ratio. The Directors consider that the net proceeds of the Rights Issue will also strengthen the Company's capital base and enhance the Group's financial resilience, while at the same time the Rights Issue will enable all Shareholders to participate in the future development of the Company on equal terms.

The Set-off Arrangement allows the Company to reduce its debt and so improve its gearing ratio. Pursuant to the terms of the Convertible Bond I, Waste Resources G.P. Limited may request redemption of the Convertible Bond I from 13 April 2013 to 20 April 2013 and in which case the Company will be required to redeem the Convertible Bond I on or before 12 June 2013, if the volume weighted average trading price per Share in a period of 30 consecutive trading days immediately before the third anniversary of the date of issue of the Convertible Bond I is less than the conversion price of HK$2.40. The Company received an irrevocable put option exercise notice from Waste Resources G.P. Limited requesting the redemption of the Convertible Bond I on 15 April 2013 pursuant to the aforesaid term. The Company is considering various sources of funding to meet its obligation under such put option exercise notice, and may consider utilising the net proceeds from the Rights Issue to redeem the Convertible Bond I.

Based on the above, the Directors (including the independent non-executive Directors who have considered the advice from the Independent Financial Adviser) are of the view that the Rights Issue, the Whitewash Waiver and the Set-off Arrangement are in the interests of the Group and the Independent Shareholders as a whole.

PREVIOUS FUND RAISING EXERCISE OF THE COMPANY

The following are fund raising activities of the Company during the past 12 months immediately preceding the Latest Practicable Date:

Date of announcement	Description of the equity fund raising activities	Net proceeds raised (approximately)	Intended use of proceeds	Actual use of proceeds *(Note)*
19 October 2012	Placing of existing Shares and subscription of new Shares under general mandate	HK$80.6 million	General working capital and/or the investment in the waste treatment project in Xingtai, Hebei Province, the PRC (the "Xingtai Investment")	The fund raised has not been used
3 August 2012	Placing of existing Shares and subscription of new Shares under general mandate	HK$48.8 million	General working capital, repayment of loans of the Group and/or the Xingtai Investment	Approximately HK$1.1 million has been used to repay the interest of a borrowing from Simple Success Investments Limited and the remaining HK$47.7 million has not been used
6 December 2011	Issue of convertible bond	HK$96.8 million	Xingtai Investment and/or general working capital of the Company	The fund raised has not been used

Note: Most of the unutilised proceeds raised from the previous fund raising exercise in the past 12 months were placed in the Company's bank fixed deposit accounts.

The Xingtai Investment is still pending for the final approval of the relevant PRC government authority. The Directors expected that the final approval would be obtained in the near future, and the proceeds raised from the aforesaid fund raising activities would be used upon the receipt of the final approval. The total capital requirement for the Xingtai Investment is expected to be approximately RMB330.0 million. The Company has earmarked HK$150.0 million out of the aggregated proceeds of approximately HK$226.2 million raised during the past 12 months for financing such capital requirement. Having considered the target debt-to-equity funding structure of the Xingtai Investment, it is expected that approximately RMB130 million of the capital requirement of the project will be financed by equity financing. Therefore, the Directors are of the view that HK$150 million earmarked from the proceeds of the previous fund raising activities is expected to be sufficient to fund the Xingtai Investment. Further, by utilising part of the proceeds from the Rights Issue to fund other potential acquisitions and/or investments instead of providing further funding for the Xingtai Investment, the Group can mitigate the single project risk as the Group shall be able to diversify its investments in projects in different geographical areas in the PRC that are of different types of waste treatment and/or waste-to-energy projects which are at different stages of development. The Company will consider other sources of debt/equity financing, where appropriate, to finance the remaining capital requirement.

Save as disclosed above, the Company did not raise any other funds by issue of equity securities during the 12 months immediately preceding the Latest Practicable Date.

UNDERWRITING ARRANGEMENTS

Underwriting Agreement

The principal terms of the Underwriting Agreement are summarised as below:

Date:	27 February 2013, after trading hours
Underwriter:	Beijing Capital (Hong Kong) Limited
Number of Rights Shares underwritten by the Underwriter:	Not less than 2,344,852,557 but not more than 2,469,743,793 Rights Shares. The actual maximum number of Underwritten shares would be 2,372,243,793 taking into account that the Convertible Bond I will be redeemed and not be converted
Commission:	Nil

The Underwriter does not underwrite issues of securities in its ordinary course of business.

Terms of the Underwriting Agreement were determined after arm's length negotiations between the Company and the Underwriter. The Directors (including the independent non-executive Directors who have considered the advice from the Independent Financial Adviser) are of the view that the terms of the Underwriting Agreement are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

The Underwriter is interested in: (i) aggregate of 299,022,000 Shares, representing approximately 16.06% of the issued share capital of the Company as at the Latest Practicable Date; (ii) the Convertible Note I, with outstanding principal amount of HK$177,000,000, carrying the right to convert into Shares at HK$1.13 each; and (iii) the Convertible Bond II, with outstanding principal amount of HK$100,000,000, carrying the right to convert into Shares at HK$0.4 each. BC Water Investments Co., Ltd., which is wholly-owned by Beijing Capital is a party acting in concert with the Underwriter. BC Water Investments Co., Ltd. is interested in 9,284,000 Shares, representing approximately 0.5% of the issued share capital of the Company as at the Latest Practicable Date.

Pursuant to the Undertaking, the Underwriter has irrevocably undertaken to the Company that (i) it will remain the beneficial and registered owner of the number of Principal Shares and not more than the number of Principal Shares up to the Final Acceptance Date; (ii) it will take up and accept the rights entitlement in full under the Rights Issue in respect of the Principal Shares prior to 4:00 p.m. on the Final Acceptance Date; and (iii) it will not dispose of or transfer or exercise any of the convertible rights under both the Convertible Bond II and Convertible Note I held by it on or before the Final Acceptance Date.

Payment of Rights Shares subscription by the Underwriter

Upon the Rights Issue becoming unconditional and:

(i) if conditions (a)(iii) and (c) under paragraph headed "Conditions of the Rights Issue" have been fulfilled and not waived by the Underwriter, the total Subscription Price of the Rights Shares to be taken up by the Underwriter shall be paid as to any amount up to HK$177,000,000 out of the outstanding principal amount of the Convertible Note I available with the remaining balance (if any) by cheques or cashier order to the Company; or

(ii) if condition (a)(iii) and/or (c) under paragraph headed "Conditions of the Rights Issue" is/are not fulfilled and the Underwriter has waived such condition(s), the Underwriter will pay the total Subscription Price by cheques or cashier order in the full amount payable to the Company.

If conditions (a)(iii) and (c) under paragraph headed "Conditions of the Rights Issue" are not fulfilled and are waived by the Underwriter, the Underwriter will use its own funds to pay the Subscription Price.

Amendment to the terms of the Convertible Note I

Subject to the Rights Issue becoming unconditional, and conditions (a)(iii) and (c) under paragraph headed "Conditions of the Rights Issue" have been fulfilled and not waived by the Underwriter, the Underwriter and the Company agree to amend the terms of the Convertible Note I such that the Convertible Note I shall be redeemed to effect the Set-off Arrangement. The amendment in the terms of the Convertible Note I is a part of the Set-off Arrangement, which constitutes a special deal for the Company under Rule 25 of the Takeovers Code.

Pursuant to a subordination deed entered into among the Company, the Underwriter and Waste Resources G.P. Limited (the holder of the Convertible Bond I), the Convertible Note I is subordinated to the Convertible Bond I and the repayment of the Convertible Note I is subject to the consent of Waste Resources G.P. Limited so long as the Convertible

Bond I remains outstanding. Therefore, the Set-off Arrangement is subject to the consent of Waste Resources G.P. Limited so long as the Convertible Bond I remains outstanding. The Company is in the progress of obtaining such consent.

Termination of the Underwriting Agreement

The Underwriter reserves the right to terminate the underwriting arrangements set out in the Underwriting Agreement by notice in writing given by the Underwriter to the Company at any time prior to the Latest Time for Termination if:

(a) there shall develop, occur, exist or come into effect:

(i) any new law or regulation or any change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong or any other place in which any member of the Group conducts or carries on business; or

(ii) any local, national or international event or change of a political, military, financial, economic or other nature, or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets; or

(iii) any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic or threatened epidemic, terrorism, strike or lock-out; or

(iv) the imposition of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange occurring due to exceptional financial circumstances; or

(v) the occurrence of any event, or series of events, beyond the control of the Underwriter;

which, in the reasonable opinion of the Underwriter:

(1) is or will or is likely to have a material adverse effect on the business or financial position of the Group or the Rights Issue; or

(2) has or will have or is likely to have a material adverse effect on the success of the Rights Issue or the level of Rights Shares taken up; or

(3) makes it inadvisable or inexpedient for the Company to proceed with the Rights Issue; or

(b) there comes to the notice of the Underwriter:

(i) any matter or event showing any of the warranties was, when given, untrue or misleading or as having been breached in any respect; or

(ii) any breach by any of the other parties to the Underwriting Agreement of any of their respective obligations or undertakings under the Underwriting Agreement,

then and in any such case the Underwriter may, upon giving notice to the Company, terminate the Underwriting Agreement with immediate effect.

If prior to the Latest Time for Termination any such notice referred to above is given by the Underwriter, the obligations of all parties under the Underwriting Agreement shall cease and determine and no party shall have any claim against any other party in respect of any matter or thing arising out of or in connection with the Underwriting Agreement save for any antecedent breaches, provided however that the Company shall remain liable to pay the costs charges and expenses howsoever of or incidental to the Rights Issue.

If the Underwriting Agreement is terminated by the Underwriter on or before the Latest Time for Termination or does not become unconditional, the Rights Issue will not proceed.

INFORMATION OF THE UNDERWRITER

The Underwriter is wholly-owned by Beijing Capital, which is a company listed on the Shanghai Stock Exchange. Beijing Capital is principally engaged in investments, operation and management of infrastructure, development of the water market and sewage disposal in the PRC. The Underwriter is principally engaged in overseas capital operations, investment and financing, environmental industry value chain and international business operation. Beijing Capital is owned as to 59.5% by Beijing Capital Group Co., Ltd., a state-owned enterprise owned by the People's Government of Beijing Municipality and directly under the supervision of the State-Owned Assets Supervision and Administration Commission of the Beijing Municipality.

INTENTION OF THE UNDERWRITER

It is the intention of the Underwriter that the Group will continue its current business. The Underwriter has no intention to make any major changes to the business or employment of employees of the Group or to redeploy the fixed assets of the Group.

SHAREHOLDING OF THE COMPANY

The table below depicts the possible shareholding structure of the Company as at the Latest Practicable Date and the possible changes upon completion of the Rights Issue, on the basis of the public information available to the Company as of the Latest Practicable Date, after the Directors having made reasonable enquiries and assuming there is no other changes in the shareholding structure of the Company since the Latest Practicable Date:

Assuming no exercise of Share Options and Convertible Note II on or before the Record Date

Shareholder	**As at the date of the Latest Practicable Date**		**Immediately after completion of the Rights Issue assuming full acceptance by the Qualifying Shareholders**		**Immediately after completion of the Rights Issue assuming no acceptance by the Qualifying Shareholders (other than the Underwriter)**	
	No. of Shares	*%*	*No. of Shares*	*%*	*No. of Shares*	*%*
Underwriter *(Note 1)*	299,022,000	16.06	747,555,000	16.06	3,092,407,557	66.42
BC Water Investments Co., Ltd. *(Note 1)*	9,284,000	0.50	23,210,000	0.50	9,284,000	0.20
Sub-total of the Underwriter and parties acting in concert with it	308,306,000	16.56	770,765,000	16.56	3,101,691,557	66.62
Sycomore Limited, Marcello Appella and his associates *(Note 2)*	3,588,030	0.19	8,970,075	0.19	3,588,030	0.08
Simple Success Investments Limited *(Note 3)*	270,760,000	14.54	676,900,000	14.54	270,760,000 *(Note 7)*	5.82
Best View Enterprises Limited *(Note 4)*	221,308,205	11.88	553,270,511	11.88	221,308,205 *(Note 7)*	4.75
Public Shareholders:						
Other public Shareholders	1,058,294,804	56.83	2,645,737,010	56.83	1,058,294,804	22.73
Sub-total of public Shareholders	1,058,294,804	56.83	2,645,737,010	56.83	1,550,363,009	33.30
Total	1,862,257,039	100.00	4,655,642,596	100.00	4,655,642,596	100.00

Assuming full exercise of Share Options and Convertible Note II on or before the Record Date

Shareholder	As at the date of the Latest Practicable Date		Immediately after full exercise of the Share Option and Convertible Note II		Immediately after completion of the Rights Issue assuming full acceptance by the Qualifying Shareholders		Immediately after completion of the Rights Issue assuming no acceptance by the Qualifying Shareholders (other than the Underwriter)	
	No. of Shares	*%*	*No. of Shares*	*%*	*No. of Shares*	*%*	*No. of Shares*	*%*
Underwriter *(Note 1)*	299,022,000	16.06	299,022,000	15.90	747,555,000	15.90	3,119,798,793	66.36
BC Water Investments Co., Ltd. *(Note 1)*	9,284,000	0.50	9,284,000	0.49	23,210,000	0.49	9,284,000	0.20
Sub-total of the Underwriter and parties acting in concert with it	308,306,000	16.56	308,306,000	16.39	770,765,000	16.39	3,129,082,793	66.56
Sycomore Limited, Marcello Appella and his associates *(Note 2)*	3,588,030	0.19	3,789,562	0.20	9,473,905	0.20	3,789,562	0.08
Simple Success Investments Limited *(Note 3)*	270,760,000	14.54	270,760,000	14.40	676,900,000	14.40	270,760,000 *(Note 7)*	5.76
Best View Enterprises Limited *(Note 4)*	221,308,205	11.88	221,308,205	11.77	553,270,511	11.77	221,308,205 *(Note 7)*	4.71
Public Shareholders:								
Waste Resources G.P. Limited *(Note 5)*	9,341,000	0.50	9,341,000	0.50	23,352,500	0.50	9,341,000	0.20
Winner Performance Limited *(Note 6)*	19,000,000	1.02	33,159,292	1.76	82,898,230	1.76	33,159,292	0.71
Other public Shareholders	1,029,953,804	55.31	1,033,853,804	54.98	2,584,634,510	54.98	1,033,853,804	21.98
Sub-total of public Shareholders	1,058,294,804	56.83	1,076,354,096	57.24	2,690,885,240	57.24	1,568,422,301	33.36
Total	1,862,257,039	100.00	1,880,517,863	100.00	4,701,294,656	100.00	4,701,294,656	100.00

Notes:

(1) These Shares are held by the Underwriter and BC Water Investments Co., Ltd. respectively, which are wholly-owned subsidiaries of Beijing Capital.

(2) Sycomore Limited is owned as to 50% by Mr. Marcello Appella, an executive Director, and 50% by Mrs. Maguy, Alice, Juliette, Marie Pujol ep. Appella, the spouse of Mr. Marcello Appella.

(3) These Shares are held by Simple Success Investments Limited, which is a wholly-owned subsidiary of New World Strategic Investment Limited, which is in turn wholly-owned by New World Development Company Limited. Cheng Yu Tung Family (Holdings) Limited and Cheng Yu Tung Family (Holdings II) Limited hold 49% and 40.2% interests in Chow Tai Fook Capital Limited, respectively. Chow Tai Fook Capital Limited in turn owns 74.1% interest in Chow Tai Fook (Holding) Limited which holds the entire interest in Chow Tai Fook Enterprises Limited, which in turn has more than one-third of the issued shares of New World Development Company Limited. Simple Success Investments Limited is not an associate of Mr. Cheng Yu Tung.

(4) These Shares are held by Best View Enterprises Limited, which is wholly-owned by Chow Tai Fook Nominee Limited, which is in turn controlled by Mr. Cheng Yu Tung.

(5) Waste Resources G.P. Limited is the holder of the Convertible Bond I. On 15 April 2013, the Company received an irrevocable put option exercise notice from Waste Resources G.P. Limited requesting the redemption of Convertible Bond I, therefore Convertible Bond I will not be converted into Shares.

(6) Winner Performance Limited is the holder of the Convertible Note II. Winner Performance Limited is not related to any of the other existing Shareholders.

(7) Its shareholding falls below 10% and thus no longer a substantial Shareholder. Accordingly, it will be regarded as a public Shareholder in this scenario.

(8) Figures shown above as totals may not be an arithmetic aggregation of the figures preceding them due to rounding.

ADJUSTMENTS TO OUTSTANDING CONVERTIBLE BONDS, CONVERTIBLE NOTES AND SHARE OPTIONS

The Rights Issue may lead to an adjustment to the conversion price and/or the number of Shares convertible or comprised under the Convertible Bonds, the Convertible Notes and the Share Options if there is any outstanding principal amount of the aforesaid convertibles and/or outstanding Share Options after completion of the Rights Issue. The Company will notify the holder thereof and the Shareholders by way of announcement, if and when necessary.

LISTING RULES IMPLICATIONS

Pursuant to Rule 7.19(6)(a) of the Listing Rules, since the Rights Issue will increase the issued share capital of the Company by more than 50% within the twelve-month period immediately preceding the Latest Practicable Date, the Rights Issue is conditional on the approval by the Independent Shareholders at the EGM by way of poll. Certain Directors, namely Mr. Yu Chang Jian, Mr. Liu Xiao Guang and Mr. Cao Guo Xian, are directors and/or hold various senior management positions in the Beijing Capital group. The aforesaid Directors have abstained from voting on the board resolutions approving the Rights Issue, the Whitewash Waiver and the Special Deals. Mr. Lim Jui Kian, a non-executive Director, was nominated by Waste Resources G.P. Limited and is considered to subject to potential conflict. Therefore, his votes on the Board resolutions in respect of the Rights Issue, the Whitewash Waiver and the Special Deals were disregarded.

WHITEWASH WAIVER

The Underwriter and parties acting in concert with it are beneficially interested in 308,306,000 Shares, representing approximately 16.56% of the issued share capital of the Company as at the Latest Practicable Date. If the Underwriter is required to take up any Rights Shares pursuant to its underwriting commitment in connection with the Rights Issue and/or pursuant to its application for any excess Rights Shares that may be accepted by the Company, the Underwriter may trigger an obligation to make a mandatory offer under Rule 26.1 of the Takeovers Code. For illustration purpose only, based on the actual maximum number of Rights Shares of 2,820,776,793 (taking into account that the Convertible Bond I will be redeemed and not be converted) proposed to be issued, upon completion of the Rights Issue, assuming that (i) no Qualifying Shareholders (other than the Underwriter) takes up any Rights Shares; and (ii) the number of issued Shares remains unchanged (save for the full exercise of the Share Option and the full conversion of the Convertible Note II), the Underwriter pursuant to the Underwriting Agreement will be required to subscribe for 2,820,776,793 Rights Shares, which will result in the Underwriter and parties acting in concert with it beneficially interested in 3,129,082,793 Shares, representing approximately 66.56% of the enlarged issued share capital of the Company upon completion of the Rights Issue, thereby triggering an obligation of the Underwriter and parties acting in concert with it to make a mandatory general offer under Rule 26.1 of the Takeovers Code for all the Shares not already owned or agreed to be acquired by it and persons acting in concert with it. Upon completion of the Rights Issue, the Underwriter and parties acting in concert with it may hold more than 50% of the enlarged issued share capital of the Company in which case, the Underwriter may increase its shareholding in the Company without incurring any further obligation under Rule 26 of the Takeovers Code to make a general offer.

In this regard, an application has been made by the Underwriter to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeover Code. The Executive has indicated that the Whitewash Waiver will be granted and will be subject to, among other things, the approval of the Independent Shareholders by way of poll at the EGM. If the Whitewash Waiver is not granted by the Executive or not approved by the Independent Shareholders, the Right Issue will lapse and will not proceed.

SPECIAL DEALS

The Set-off Arrangement

Pursuant to the Underwriting Agreement, the Underwriter has agreed with and instructed the Company to set off the total Subscription Price of the Rights Shares to be subscribed under the Rights Issue up to HK$177,000,000 against the outstanding principal amount of the Convertible Note I, subject to the Rights Issue becoming unconditional and conditions (a)(iii) and (c) under paragraph headed "Conditions of the Rights Issue" in this circular having been fulfilled and not waived by the Underwriter. The Underwriter will pay the balance, if any, in cash. Given that the Underwriter is a substantial Shareholder and that the Set-off Arrangement is not extended to all Shareholders, for the purpose of applying for the Whitewash Waiver, the Set-off Arrangement constitutes a special deal for the Company under Rule 25 of the Takeovers Code.

The possible repayment of the Convertible Bond I

It is intended that part of the net proceeds from the Rights Issue will be used to repay certain debts of the Group, which may include the Convertible Bond I. The holder of the Convertible Bond I, Waste Resources G.P. Limited is a Shareholder holding 9,341,000 Shares, representing approximately 0.5% of the issued share capital of the Company as at the Latest Practicable Date. Given that the holder of the Convertible Bond I is a Shareholder and that the possible repayment of the Convertible Bond I is not extended to all Shareholders, for the purpose of applying for the Whitewash Waiver, the possible repayment of the Convertible Bond I constitutes a special deal for the Company under Rule 25 of the Takeovers Code.

The Company has made an application to the Executive for consent under Rule 25 of the Takeovers Code in relation to the Special Deals. The Executive has indicated that the consents to Special Deals will be granted and will be conditional upon the approval of the Independent Shareholders by way of poll at the EGM and the Independent Financial Adviser to the Independent Shareholders publicly states in its opinion that the Special Deals are fair and reasonable.

The Underwriter, Waste Resources G.P. Limited and parties acting in concert with any of them and those who are involved in or interested in the Whitewash Waiver and/or the Special Deals and their respective associates are required by the Listing Rules or the Takeovers Code to abstain from voting on the proposed resolutions approving the Rights Issue, the Whitewash Waiver, the Special Deals and the transactions contemplated thereunder at the EGM.

The Underwriter and parties acting in concert with it have not acquired any voting rights of the Company and have not dealt in any securities of the Company in the Relevant Period.

As at the Latest Practicable Date, no shareholding in the Company is owned or controlled by any persons who, prior to the Latest Practicable Date irrevocably committed themselves to accept or reject the Rights Issue except the Undertaking of the Underwriter.

As at the Latest Practicable Date, no Independent Shareholders had irrevocably committed themselves to vote for or against the proposed resolutions approving the Rights Issue, the Whitewash Waiver and/or the Special Deals.

As at the Latest Practicable Date, there is no outstanding derivative in respect of securities of the Company entered into by the Underwriter or any parties acting in concert with it, save for the Convertible Bond II and Convertible Note I.

As at the Latest Practicable Date, there is no arrangement (whether by way of option, indemnity or otherwise) in relation to the Shares or shares of the Underwriter and which might be material to the Rights Issue and the Whitewash Waiver, save for the Underwriting Agreement, the Undertaking and the Set-off Arrangement.

As at the Latest Practicable Date, save for the Underwriting Agreement (including the Set-off Arrangement), there is no agreement or arrangement to which the Underwriter is a party which relates to the circumstances in which it may or may not invoke or seek to invoke a condition to the Rights Issue.

As at the Latest Practicable Date, none of the Underwriter and parties acting in concert with it has borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company.

TAXATION

Qualifying Shareholders are recommended to consult their professional advisers if they are in any doubt as to the tax implications of the holding or disposal of, or dealing in the Rights Shares. It is emphasised that none of the Company, the Directors or any other parties involved in the Rights Issue accepts responsibility for any tax effects or liabilities of the holders of the Rights Shares resulting from the purchase, holding or disposal of, or dealing in the Rights Shares.

GENERAL

The Rights Issue, the Whitewash Waiver, the Special Deals and the transactions contemplated thereunder will be subject to the approval by the Independent Shareholders at the EGM by way of poll.

Shareholders who are involved in, or interested in, the Rights Issue, the Whitewash Waiver, the Special Deals and the transactions contemplated thereunder (including the Underwriter, Waste Resources G.P. Limited, any of their associates and parties acting in concert with any of them) are required to abstain from voting in respect of the resolutions proposed at the EGM in relation to Rights Issue, the Whitewash Waiver, the Special Deals and the transactions contemplated thereunder. As at the Latest Practicable Date, the Underwriter and parties acting in concert with it controlled the voting rights in respect of 308,306,000 Shares and Waste Resources G.P. Limited and parties acting in concert with it controlled the voting rights in respect of 9,341,000 Shares.

Subject to the Right Issue, the Whitewash Waiver, the Special Deals and the transactions contemplated thereunder being approved at the EGM, the Company will despatch the Right Issue Documents to each of the Qualifying Shareholders and, for information only, the Prospectus to each of the Excluded Shareholders (if any) for their information only on Monday, 20 May 2013.

THE EGM

Set out on pages EGM-1 to EGM-4 of this circular is a notice of the EGM to be held at Unit 1613–1618, 16/F, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong at 11:00 a.m. on Tuesday, 7 May 2013, at which ordinary resolutions will be proposed to approve the proposed Rights Issue, the Underwriting Agreement, the Whitewash Waiver, the Special Deals and the transactions contemplated thereunder. Whether or not you are able to attend the EGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return to the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 33 to 34 of this circular which contains its recommendation to the Independent Shareholders in relation to the Rights Issue, the Whitewash Waiver, the Special Deals, and the transactions contemplated thereunder and the letter from China Galaxy set out on pages 35 to 58 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders.

As stated in the letter from the Independent Board Committee, the Independent Shareholders are recommended to vote in favour of the resolutions relating to the Rights Issue, the Whitewash Waiver, the Special Deals, and the transactions contemplated thereunder at the EGM.

ADDITIONAL INFORMATION

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

By order of the Board
New Environmental Energy Holdings Limited
Yu Chang Jian
Chairman

NEW ENVIRONMENTAL ENERGY HOLDINGS LIMITED
新環保能源控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 03989)

19 April 2013

To the Independent Shareholders

Dear Sir or Madam,

PROPOSED RIGHTS ISSUE ON THE BASIS OF THREE RIGHTS SHARES FOR EVERY TWO SHARES HELD ON THE RECORD DATE AND APPLICATION FOR WHITEWASH WAIVER AND SPECIAL DEALS CONSENT

We refer to the circular of the Company to the Shareholders dated 19 April 2013 (the "Circular"), of which this letter forms part. Unless the context required otherwise, capitalised terms used in this letter will have the same meanings defined in the Circular.

We have been appointed as members of the Independent Board Committee to consider the Rights Issue, the Whitewash Waiver, the Special Deals, and the transactions contemplated thereunder and to advise the Independent Shareholders as to the fairness and reasonableness of the Rights Issue, the Whitewash Waiver, the Special Deals, and the transactions contemplated thereunder and to recommend whether or not the Independent Shareholders should vote for the resolutions to be proposed at the EGM to approve the Rights Issue, the Whitewash Waiver, the Special Deals, and the transactions contemplated thereunder. China Galaxy has been appointed to advise the Independent Board Committee and the Independent Shareholders in such regards.

We wish to draw your attention to the letter from the Board and the letter from China Galaxy as set out in the Circular which contains, inter alia, China Galaxy's advice and recommendation to us and the Independent Shareholders regarding the terms and conditions of the Rights Issue, the Whitewash Waiver, the Special Deals, and the transactions contemplated thereunder with the principal factors and reasons taken into consideration by it in arriving at its advice and recommendation.

Having taken into account the advice and recommendation of China Galaxy and the principal factors and reasons taken into consideration by it in arriving at its opinion, we consider that the terms of the Rights Issue, the Whitewash Waiver, the Special Deals, and the transactions contemplated thereunder are fair and reasonable so far as the interests of the Independent Shareholders are concerned and the Rights Issue, the Whitewash Waiver, the Special Deals, and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Rights Issue, the Whitewash Waiver, the Special Deals, and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Independent Board Committee

Mr. Pao Ping Wing **Mr. Cheng Kai Tai, Allen** **Mr. Li Baochun** **Ms. Chan Yee Wah, Eva**

Independent non-executive Director

The following is the text from China Galaxy International Securities (Hong Kong) Co., Limited to the Independent Board Committee and the Independent Shareholders, prepared for the purpose of inclusion in this circular.

中國銀河國際
CHINA GALAXY INTERNATIONAL

Room 3501–3507, 35/F
Cosco Tower
183 Queen's Road Central
Hong Kong

19 April 2013

*To: The Independent Board Committee and
the Independent Shareholders of New Environment Energy Holdings Limited*

Dear Sirs,

**(I) PROPOSED RIGHTS ISSUE ON THE BASIS OF THREE RIGHTS SHARES FOR EVERY TWO SHARES HELD ON THE RECORD DATE;
(II) APPLICATION FOR THE WHITEWASH WAIVER; AND
(III) SPECIAL DEALS CONSENT**

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Proposed Rights Issue, Whitewash Waiver and Special Deals. Details of the transactions are set out in the "Letter from the Board" contained in the circular of the Company dated 19 April 2013 (the "Circular"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

Proposed Rights Issue

On 11 March 2013, the Company announced that it proposed to issue not less than 2,793,385,557 Rights Shares (assuming no outstanding Share Options, Convertible Bond I and Convertible Note II has been exercised/converted before the Record Date) but not more than 2,918,276,793 Rights Shares (assuming all outstanding Share Options, Convertible Bond I and Convertible Note II have been exercised/converted in full before the Record Date) at the Subscription Price of HK$0.20 per Rights Share on the basis of three Rights Shares for every two existing Shares in issue and held on the Record Date. The proposed Rights Issue is intended to raise, before expenses, not less than approximately HK$558.7 million but not more than approximately HK$583.7 million.

The Rights Issue is available to all Qualifying Shareholders and is underwritten by Beijing Capital (Hong Kong) Limited (the "Underwriter") subject to the terms and conditions set out in the Underwriting Agreement. The Qualifying Shareholders may apply for any unsold entitlements of the Excluded Shareholders, any unsold fractions of the Rights Shares and any Rights Shares provisionally allotted but not accepted by any

Qualifying Shareholders or otherwise subscribed for by transferees of nil-paid Rights Shares. Pursuant to the Underwriting Agreement, the Underwriter has conditionally agreed to, on a fully underwritten basis, subscribe or procure subscribers to subscribe for all of the Underwritten Shares not taken up by the Qualifying Shareholders or otherwise subscribed for by transferees of nil-paid Rights Shares and shall procure to be paid to the Company the Subscription Price in respect thereof.

Pursuant to Rule 7.19(6)(a) of the Listing Rules, since the Rights Issue will increase the issued share capital of the Company by more than 50% within the 12-month period immediately preceding the date of the Announcement, the Rights Issue is conditional on the approval by the Independent Shareholders at the EGM by way of poll.

Whitewash Waiver

As at the Latest Practicable Date, the Underwriter and parties acting in concert with it are beneficially interested in an aggregate of 308,306,000 Shares, representing approximately 16.56% of the issued share capital of the Company. If the Underwriter is required to take up any Rights Shares pursuant to its underwriting commitment in connection with the Rights Issue and/or pursuant to its application for any excess Rights Shares that may be accepted by the Company, the Underwriter may trigger an obligation to make a mandatory offer under Rule 26.1 of the Takeovers Code. Based on the actual maximum number of Rights Shares of 2,820,776,793 proposed to be issued, upon completion of the Rights Issue, assuming that (i) no Qualifying Shareholders (other than the Underwriter) takes up any Rights Shares; and (ii) the number of issued Shares remains unchanged, the Underwriter pursuant to the Underwriting Agreement will be required to subscribe for 2,820,776,793 Rights Shares, which will result in the Underwriter and parties acting in concert with it beneficially interested in 3,129,082,793 Shares, representing approximately 66.56% of the enlarged issued share capital of the Company upon completion of the Rights Issue, thereby triggering an obligation of the Underwriter and parties acting in concert with it to make a mandatory general offer under Rule 26.1 of the Takeovers Code for all the Shares not already owned or agreed to be acquired by it and parties acting in concert with it.

An application has been made by the Underwriter to the Executive for the Whitewash Waiver pursuant to Note 1 of the Notes on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted, will be subject to the approval of the Independent Shareholders on a vote taken by way of poll at the EGM and such other condition(s) as may be imposed by the Executive. If the Whitewash Waiver is not granted by the Executive or not approved by the Independent Shareholders, the Rights Issue will not become unconditional and will not proceed.

Special Deals

Pursuant to the Underwriting Agreement, the Underwriter has agreed with and instructed the Company to set off the total Subscription Price of the Rights Shares to be subscribed under the Rights Issue up to HK$177,000,000 against the outstanding principal amount of the Convertible Note I, subject to the Rights Issue becoming unconditional and conditions (a)(iii) and (c) under paragraph headed "Conditions of the Rights Issue" having been fulfilled and not waived by the Underwriter. The Underwriter will pay the balance, if any, in cash. Given that the Underwriter is a substantial Shareholder and that the Set-off Arrangement is not extended to all Shareholders, the Set-off Arrangement constitutes a special deal for the Company under Rule 25 of the Takeovers Code.

It is intended that part of the net proceeds from the Rights Issue will be used to repay certain debts of the Group, which may include the Convertible Bond I. The holder of the Convertible Bond I, Waste Resources G.P. Limited is a Shareholder holding 9,341,000 Shares, representing approximately 0.5% of the issued share capital of the Company as at the Latest Practicable Date. Given that the holder of the Convertible Bond I is a Shareholder and that the possible repayment of the Convertible Bond I is not extended to all Shareholders, for the purpose of applying for the Whitewash Waiver, the possible repayment of the Convertible Bond I constitutes a special deal for the Company under Rule 25 of the Takeovers Code.

The Company has made an application to the Executive for consent under Rule 25 of the Takeovers Code in relation to the Special Deals, which shall be conditional upon the approval of the Independent Shareholders by way of poll at the EGM and we publicly give an opinion that the terms of the Special Deals are fair and reasonable.

In summary, the Rights Issue is conditional, among other things, upon the following conditions being fulfilled:

(a) the passing at the EGM of necessary resolutions by the Independent Shareholders to approve (i) the Rights Issue, (ii) the Whitewash Waiver and (iii) the Set-off Arrangement in accordance with the Listing Rules and the Takeovers Code;

(b) the granting of the Whitewash Waiver to the Underwriter by the Executive on or before the Posting Date; and

(c) the granting of the Special Deals approval from the Executive and, where necessary, other consents in respect of the Set-off Arrangement.

As at the Latest Practicable Date, the Independent Board Committee, comprising all the independent non-executive Directors namely Mr. Pao Ping Wing, Mr. Cheng Kai Tai, Allen, Mr. Li Baochun and Ms. Chan Yee Wah, Eva, has been established to make recommendation to the Independent Shareholders as to whether the Rights Issue, Whitewash Waiver and the Special Deals are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole as well as how to vote in respect of the resolution relating to the Rights Issue, Whitewash Waiver and the Special Deals at the EGM.

As the independent financial adviser to the Independent Board Committee and the Independent Shareholders, we will give an independent opinion to the Independent Board Committee and the Independent Shareholders as to (i) whether the Rights Issue, Whitewash Waiver and the Special Deals are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole; and (ii) how the Independent Shareholders should vote in respect of the resolutions relating to the Rights Issue, Whitewash Waiver and the Special Deals at the EGM. The Underwriter, Waste Resources G.P. Limited and parties acting in concert with any of them and those who are involved in or interested in the Whitewash Waiver and/or the Special Deals and their respective associates are required by the Listing Rules or the Takeovers Code to abstain from voting on the proposed resolutions approving the Rights Issue, the Whitewash Waiver, the Special Deals and the transactions contemplated thereunder at the EGM.

Apart from the normal advisory fee payable to us in connection with our appointment as the independent financial adviser which has been approved by the Independent Board Committee to advise the Independent Board Committee and the Independent Shareholders, no arrangement exists whereby we shall receive any other fees or benefits from the Company.

BASIS OF OUR ADVICE

In arriving at our recommendation, we have relied on the statements, information and representations contained in the Circular and the information and representations provided to us by the Directors and the management of the Company. We have assumed that all information and representations contained or referred to in the Circular and all information and representations which have been provided by the Directors and the management of the Company are true and accurate at the time they were made and will continue to be true and accurate as at the date of the despatch of the Circular. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the management of the Company.

The information contained herein has been supplied by the Directors, who jointly and severally accept full responsibility for the accuracy of such information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement herein misleading. We consider that we have been provided with sufficient information on which to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any facts or circumstances which would render the information provided and representations made to us untrue, inaccurate or misleading. We consider that we have performed all the necessary steps to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinion. We have not, however, carried out any independent verification of the information provided by the Directors and the management of the Company, nor have we conducted an independent investigation into the business and affairs or the prospects of the Company, the Group or any of their respective associates.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources which are the latest information publicly available to the best of our knowledge, the sole responsibility of China Galaxy International Securities (Hong Kong) Co., Limited is to ensure that such information has been correctly extracted from the relevant sources.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion, we have taken into consideration the following principal factors and reasons:

I. BACKGROUND INFORMATION OF THE COMPANY

(a) Principal business

The Group is mainly engaged in waste treatment and waste-to-energy business primarily in the People's Republic of China ("PRC" or "China"). It involves in the technology development, design, system integration, project investment, consultancy, operation, and maintenance of waste treatment facilities, primarily waste-to-energy projects in the PRC. The Group is also engaged in the procurement and trading of equipment, as well as provision of engineering and technical services, and municipal solid waste recycling treatment services.

According to the result announcement of the Company for the year ended 31 December 2012 ("2012 Annual Result"), as at 31 December 2012, the Group had eight waste treatment projects that commanded a total investment of approximately RMB2,268.0 million. The facilities were designed with an annual capacity to process waste of approximately 2,008,050 tonnes which can generate on-grid electricity of approximately 377 million kWh annually.

(b) Historical financial information

Set out below is a summary of the audited financial information of the Group for the three years ended 31 December 2010, 2011 and 2012 as extracted from "Financial information of the Group" set out in Appendix I to the Circular.

	2012	**2011**	**2010**
	HK$'000	*HK$'000*	*HK$'000*
		(restated)	(restated)
Revenue	17,609	20,147	51,633
Gross profit (loss)	(472)	(35,267)	(100,603)
Loss before tax	(155,546)	(187,757)	(708,899)
Profit (loss) for the year from discontinued operations	4,852	(163,290)	(83,698)
Loss for the year	(147,825)	(347,133)	(780,996)
Placement of pledged bank deposits	—	—	3,538
Bank balances and cash	263,239	54,859	34,280
Total assets	1,057,327	681,121	839,599
Total liabilities	1,006,110	618,391	768,120
Total borrowings	266,491	52,250	67,689
Net assets	51,217	62,730	71,479
Gearing ratio (total borrowings/total equity)	5.20	0.83	0.95

Source: Appendix I — Financial Information of the Group

For the year ended 31 December 2012

According to Appendix I to the Circular, the Group recorded an audited consolidated revenue of approximately HK$17.6 million for the year ended 31 December 2012, representing a decrease of approximately 12.6% from approximately HK$20.1 million in 2011. Loss for the year ended 31 December 2012 amounted to approximately HK$147.8 million.

On 2 December 2011, the Group entered into a disposal agreement to dispose of its wholly-owned subsidiaries, Hembly Garment Manufacturing Limited ("Hembly Garment") and Heng Hwa (Nanjing) Apparel Limited (恆華(南京)服飾有限公司 "Heng Hwa"), which were principally engaged in the trading of apparel and accessories, to an independent third party, for a cash consideration of approximately HK$12 million. The disposal of Hembly Garment and Heng Hwa was approved by the shareholders at an extraordinary general meeting of the Company on 16 January 2012 and was subsequently completed on 22 February 2012.

As at 31 December 2012, the Group had cash and bank balances of HK$263.2 million, primarily denominated in RMB and HK$ (31 December 2011: HK$54.9 million), and total borrowings of HK$266.5 million (31 December 2011: HK$52.3 million), including long-term and short-term borrowings. As at 31 December 2012, the Group's borrowings were subject to fixed and variable interest rates. The gearing ratio, which is calculated on the basis of total borrowings over total shareholders' equity, was 5.20x as at 31 December 2012. The current ratio, which is calculated on the basis of current assets over current liabilities, increased from 0.44x as at 31 December 2011 to 1.08x as at 31 December 2012.

For the year ended 31 December 2011 (Restated)

According to Appendix I to the Circular, the Group recorded an audited consolidated revenue of approximately HK$20.1 million for the year ended 31 December 2011, representing a decrease of approximately 61.0% from approximately HK$51.6 million in 2010. Loss for the year ended 31 December 2011 amounted to approximately HK$347.1 million.

As at 31 December 2011, the Group had cash and bank balances of HK$54.9 million, primarily denominated in RMB and HK$ (31 December 2010: HK$34.3 million), and total borrowings of HK$52.3 million (31 December 2010: HK$67.7 million), all of which are short-term borrowings. As at 31 December 2011, all of the Group's borrowings were subject to fixed interest rates. The gearing ratio, which is calculated on the basis of total borrowings over the Group's total shareholders' equity, was 0.83x as at 31 December 2011. The current ratio, which is calculated on the basis of current assets over current liabilities, decreased from 1.25x as at 31 December 2010 to 0.44x as at 31 December 2011.

For the year ended 31 December 2010 (Restated)

According to Appendix I to the Circular, the Group recorded an audited consolidated revenue of approximately HK$51.6 million for the year ended 31 December 2010 and loss for the year ended 31 December 2010 amounted to approximately HK$781.0 million.

As at 31 December 2010, the Group had cash and bank balances of HK$34.3 million, primarily denominated in RMB and HK$ (31 December 2009: HK$125.3 million), and total borrowings of HK$67.7 million (31 December 2009: HK$305.9 million), all of which are short-term borrowings. As at 31 December 2010, the Group's borrowings were subject to fixed and variable interest rates. The gearing ratio, which is calculated on the basis of total borrowings over the Group's total shareholders' equity, was 0.95x as at 31 December 2010. The current ratio, which is calculated on the basis of current assets over current liabilities, was at 1.25x as at 31 December 2010.

(c) Recent developments

Xingtai Investment

Reference is made to the announcement of the Company dated 25 July 2012 (the "Xingtai Announcement") in relation to the probable successful tender for a waste-to-energy project located in Xingtai, Hebei Province, China. On 25 July 2012, Yangzhou Biomax Environmental Development Limited ("Yangzhou Biomax"), a wholly owned subsidiary of the Company received a notice of successful tender from Hebei Province Tendering Company Limited (河北省成套招標有限公司). Pursuant to such notice, Yangzhou Biomax shall be responsible for investing, building and operating the project under Build-Operate-Transfer ("BOT") arrangement with a concessionary period of 30 years (the "Xingtai Investment"). The total capital requirement for the Xingtai Investment is expected to be approximately RMB330.0 million out of which approximately RMB132 million and RMB198 million will be financed by equity and debts respectively and the designed annual waste treatment capacity is approximately 335,000 tonnes. According to the Directors, Xingtai Investment is the first large-scale waste-to-energy project in Xingtai and primarily supplies electricity for the neighbouring residents.

The Group has already earmarked HK$150.0 million (or approximately RMB120.0 million) out of the aggregated proceeds of approximately HK$226.2 million (or approximately RMB181.0 million) raised during the past 12 months (see "Previous Fund Raising Exercises of the Company" in this Circular) for financing such capital requirement. The Company will consider other sources of funding such as bank borrowings, where appropriate, to cover any shortfall of capital requirement.

According to the Directors, the Xingtai Investment is still pending for the final approval from the relevant PRC government authority which is expected to be obtained in the near future. It is expected that the construction process will take more than two years to complete after receiving the final approval from the relevant government authority. We were advised by the Directors that, although the Group has not yet received the final approval from the relevant government authority, at the time of submission of the tender, the Group had made a commitment to carry out the Xingtai Investment, and unless it was agreed by the local government authority, the Group has the obligation to carry out the Xingtai Investment.

In addition, the Company is currently conducting studies and preliminary discussions in relation to certain waste treatment projects in the PRC. Save for the possible acquisition of the Huizhou City Solid Waste Incineration Power Generation Project as announced by the Company on 2 April 2013 has been identified by the Company, no agreement has been entered into and no terms have been agreed upon by the Group in respect of any mergers and acquisitions and other investments which have not been disclosed by the Company up to the Latest Practicable Date.

(d) Future Prospects

According to the 2012 Annual Result, it is stated in National Plan for Establishing Facilities for Treatment of Urban Household Waste in a Non-Hazardous Way under the 12th Five-Year Plan 《"十二五"全國城鎮生活垃圾無害化處理設施建設規劃》issued by the PRC government in May 2012, the daily waste processing capacity of waste-to-energy shall be substantially increased from 89,625 tonnes at the end of 2010 to approximately 307,155 tonnes by the end of 2015 at an annual compounded growth rate of 28%.

At the same time, in 2012, the PRC State Council ranked energy conservation and environmental protection first among the seven "Strategic Emerging Industries" under its 12th Five-Year Plan. The National Development and Reform Commission of the PRC has also refined the waste-to-energy tariff policy and provided concrete support to the environmental protection industry through special subsidies. In expectation of the great market potential underscored by favourable national policies, the Directors are optimistic over the future demand in the environmental protection and alternative energy industries.

According to the Directors, the Group has eight waste treatment projects that commanded a total investment of approximately RMB2,268.0 million for the year ended 31 December 2012. These projects have an aggregate designed annual capacity waste processing of approximately 2,008,050 tonnes which can generate on-grid electricity of approximately 377 million kWh annually. Looking ahead, with favourable national policies and the continued comprehensive support from the substantial shareholder, Beijing Capital (Hong Kong) Limited ("Beijing Capital HK"), a wholly owned subsidiary of Beijing Capital Co., Ltd., which is principally engaged in investments, operation and management of infrastructure, development of the water market and sewage disposal in the PRC, the Directors are confident that the Company can realise the full potential of all these opportunities in the future.

(e) Discontinued Operation

On 2 December 2011, the Group entered into a disposal agreement to dispose of its wholly-owned subsidiary, Hembly Garment and its subsidiary, Heng Hwa, which were principally engaged in the trading of apparel and accessories, to an independent third party, for a cash consideration of approximately HK$12.0 million. The disposal of Hembly Garment and Heng Hwa was approved by the shareholders at an extraordinary general meeting of the Company on 16 January 2012 and was subsequently completed on 22 February 2012.

As at the Latest Practicable Date, the Group has been operating with one reportable and operating segment, being the waste treatment and waste-to-energy business after the disposal of trading of apparel and accessories business during 2012. Trading of apparel and accessories business was another reportable and operating segment in 2011, but is considered as discontinued operations and therefore the prior period figures have been restated.

II. REASONS FOR THE RIGHTS ISSUE AND USE OF PROCEEDS

The Directors consider that taking into account the prevailing market conditions, it would be in the interests of the Company and the Independent Shareholders as a whole to raise long-term equity funding for developing an integrated industry chain on waste treatment and devote its efforts in business investment and mergers and acquisitions which are value-adding to the environmental industry. It is also intended that the net proceeds of the Rights Issue be used for the repayment of debts which will enable the Group improve its gearing ratio. The Directors consider that the net proceeds of the Rights Issue will also strengthen the Company's capital base and enhance the Group's financial resilience, while at the same time the Rights Issue will enable all Shareholders to participate in the future development of the Company on equal terms.

Based on the minimum number of 2,793,385,557 Rights Shares proposed to be issued, the gross proceeds from the Rights Issue are approximately HK$558.7 million. Assuming none of the Rights Shares is accepted or applied for by the Qualifying Shareholders other than the Underwriter and that the Set-off Arrangement is implemented, the net proceeds from the Rights Issue after deducting (i) the expenses; and (ii) the outstanding principal amount of the Convertible Note I of HK$177 million being wholly set off against the total Subscription Price of the Rights Shares to be taken up and payable by the Underwriter of an equal amount as explained in the section headed "Payment of Rights Shares subscription by the Underwriter" in this circular, are estimated to be approximately HK$377.7 million.

Given that the minimum net proceeds of the Rights Issue received by the Group are estimated to be approximately HK$377.7 million, considering the current liabilities of the Group, the Company has earmarked approximately HK$210 million for repayment of debt (which may include the Convertible Bond I with outstanding principal amount of HK$156 million). The remaining net proceeds of approximately HK$167.7 million will be applied as to approximately HK$160 million for funding of mergers and acquisitions and other investments in waste treatment and/or waste-to-energy projects in the PRC, and the balance for the general working capital of the Group, including administrative and interest expenses.

(a) Set-off Arrangement and Debt repayment

Set out below are the principal terms of the Convertible Bond I, Convertible Bond II, Convertible Note I and Convertible Note II as at date of this Circular:

	Convertible Bond I	Convertible Bond II	Convertible Note I	Convertible Note II
Current holder	Waste Resources G.P. Limited	Beijing Capital (Hong Kong) Limited or the "Underwriter"	Beijing Capital (Hong Kong) Limited or the "Underwriter"	Winner Performance Limited
Principal amount	HK$156,000,000	HK$100,000,000	HK$488,000,000	HK$188,040,000
Outstanding amount	HK$156,000,000	HK$100,000,000	HK$177,000,000	HK$16,000,000
Interest	0%	0%	0%	0%
Issue date	13-Apr-10	6-Dec-11	11-Dec-09	11-Dec-09
Maturity date	13-Apr-15	31-Dec-14	10-Dec-14	10-Dec-14
Conversion price	HK$2.40 per share	HK$0.40 per share	HK$1.13 per share	HK$1.13 per share
Conversion period	The holders of the Convertible Bond I shall have the right, from 30 days after the issuance to 7 business days before the maturity date, to convert the whole or part of the outstanding principal amount of the Convertible Bonds I into ordinary shares of the Company at the option of the holder	The holders of the Convertible Bond II shall have the rights to convert the whole or part of the outstanding principal amount of the Convertible Bonds II during the conversion period	The holders of the Convertible Notes I shall have the right at any time after the issue date of the Convertible Notes I to convert the whole or part of the outstanding principal amount of the Convertible Notes I into ordinary shares of the Company in full board lot of shares	The holders of the Convertible Notes II shall have the right at any time after the issue date of the Convertible Notes I to convert the whole or part of the outstanding principal amount of the Convertible Notes I into ordinary shares of the Company in full board lot of shares
Early Redemption	The holders of the Convertible Bond I may request redemption of the Convertible Bonds I on or before, 12 June 2013, if the volume weighted average market price per share of the Company in a period of 30 consecutive trading days immediately before the third anniversary of the date of issue of the Convertible Bonds I is less than HK$2.40	Nil	Nil	Nil

As shown above, holder of Convertible Bond I has the rights to request early redemption of the outstanding principal amount on or before 12 June 2013, if the volume weighted average market price per Share in a period of 30 consecutive trading days immediately before the third anniversary of the date of issue of the Convertible Bond I, being 13 April 2013, is less than HK$2.40. On 15 April 2013, the Company received an irrevocable put option exercise notice from Waste Resources G.P. Limited requesting the redemption of the Convertible Bond I, and Convertible Bond I will not converted into Shares. As such, the actual maximum Rights Shares proposed to be issued shall be 2,820,776,793. The Company is considering various sources of funding to meet its obligation under such put option exercise notice, and may consider utilising the net proceeds from the Rights Issue to redeem the Convertible Bond I.

As stated in the "Letter from the Board" of this Circular, the Convertible Note I with outstanding balance of HK$177 million is subordinated to the Convertible Bond I and the repayment of the Convertible Note I is subject to the consent of Waste Resources G.P. Limited so long as the Convertible Bond I remains outstanding. Therefore, the arrangement agreed between the Underwriter and the Company to set off the total Subscription Price of the Rights Shares to the outstanding principal amount of Convertible Note I for HK$177,000,000 is subject to the consent of Waste Resources G.P. Limited. In the event that Waste Resources G.P. Limited does not provide such consent, the condition (a)(iii) under paragraph headed "Conditions of the Rights Issue" in this Circular can not be fulfilled and are waived by the Underwriter, the Underwriter will use its own funds to pay the Subscription Price.

As at 12 December 2012, the Group had cash and cash equivalent of approximately HK$263.2 million. However, around HK$150.0 million had been earmarked for the Xingtai Investment. Without any fund raising, the Group may not have enough cash available to fulfill its obligation as Waste Resources G.P. Limited has exercised its early redemption rights in relative to the Convertible Bond I in full.

We consider the Set-off Arrangement together with the repayment of the debts, which in effect are converting the outstanding principal amount of the Convertible Note I and other debts into new equities of the Company, will bring economic benefits to the Group and the Shareholders as (i) the gearing ratio of the Group will be improved; (ii) the capital base of the Group will be strengthened; and (iii) the financial position of the Group will be enhanced.

(b) Future investments

As stated in the "Letter from the Board" of this Circular, approximately HK$160.0 million out of net proceeds from the Rights Issue will be used for acquisitions of waste treatment and waste-to-energy projects or other assets that would enhance efficiency or create synergies with the existing projects in the coming future. According to the Directors, the Company has been actively looking for investments and/or acquisitions in the waste treatment and waste-to-energy projects in the PRC. We were advised that the Company is currently conducting studies and preliminary discussions in relation to certain waste treatment projects in the PRC. However, no definitive agreement has been entered into and no terms have been agreed upon as at the Latest Practicable Date. In addition to the expected total investment of RMB330.0 million for Xingtai Investment as mentioned above, the Directors may need additional funds should any of these projects materialise.

Given the Group's expertise in waste treatment and waste-to-energy business, the growing market demand for such business, the support from local governments and the favourable national policies, and taking into account the financial position of the Group and recent performance, as well as the challenges it faces, we consider that it is justifiable for the Company to raise additional funds to enable it to continue pursuing its strategies on the waste treatment and waste-to-energy business.

We have reviewed projects that the Company is considering, including the possible acquisition of the Huizhou City Solid Waste Incineration Power Generation Project ("Huizhou City Project") as announced by the Company on 2 April 2013. The estimated capital requirement for Huizhou City Project amounted to approximately RMB650 million. We note that these projects under consideration by the Group, including Huizhou City Project, are all waste treatment and/or waste-to-energy projects in the PRC, which are in line with the Group's strategy.

Regarding the Xingtai Investment, we note that the HK$150 million earmarked from the previous fund raising activities would be sufficient to fund the construction of the Xingtai Investment in the current year. For the future capital requirement for the Xingtai Investment, we were advised that the Group will assess the then financial situation of the Group and utilise various sources of funding such as bank borrowings and/or equity financing to fulfill. We consider that by utilising part of the proceeds from the Rights Issue to fund other potential acquisitions and/or investments instead of providing further funding for the Xingtai Investment, the Group can mitigate the single project risk as the Group shall be able to diversify its investments in projects in different geographical areas in the PRC that are of different types of waste treatment and/or waste-to-energy projects which are at different stages of development. Also, by utilising debt financing for the Xingtai Investment may allow the Group to achieve a higher return on equity due to leverage effect.

(c) Fund raising alternatives

We have been advised by the Directors that they have consulted certain financial institutions and considered alternative means of fund raising, such as bank borrowings, share placement and issue of convertible securities. The Directors are of the view that bank borrowings will inevitably increase interest expenses of the Group and adversely impact the Group's gearing ratio; notwithstanding the fact that it is unlikely to obtain, due to the Group's already high gearing position (even if possible, under the current financial market, the interest rate and its terms and conditions may not be desirable and affordable by the Group). In addition, given the current stock market sentiment and the financial position of the Group, the Directors believe that it would be difficult to raise fund through share placement and issue of convertible securities.

Despite the Underwriter is a connected person (as defined in the Hong Kong Listing Rules) of the Company, due to the latest financial performance of the Company and the volatility of the stock market in Hong Kong, even if there exists a willing independent underwriter, the amount that may be raised from the Rights Issue are lower but with a higher underwriting commission than the present level (which is nil).

Lastly, the Directors consider that any further placement of the Shares and/or issue of convertible securities would be dilutive to the interest of the existing Shareholders as they will not be able to participate on an equitable basis. In comparison, by taking up their allotments under the Rights Issue in full, the Rights Issue would enable the Qualifying Shareholders to maintain their respective percentage interests in the Company and continue to participate in the future growth and development of the Company.

Given the abovementioned reasons, the Board considers that the Rights Issue will give the Qualifying Shareholders the opportunity to maintain their respective pro-rata shareholding interests in the Company and hence, the Board considers that fund raising through the Rights Issue is in the best interests of the Company and the Independent Shareholders as a whole.

Based on the above and taking into consideration that:

- the Group had been loss making in the past three years;
- the Group has received an irrevocable put option exercise notice from Waste Resources G.P. Limited requesting the redemption of the Convertible Bond I;
- the Rights Issue would reduce the gearing ratio of the Company;
- the Rights Issue would provide funding for the Group to further invest and/or acquire businesses in the waste treatment and waste-to-energy market in the PRC;
- the Rights Issue will increase the capital base of the Company without incurring any additional financing costs;
- share placement or issue of convertible securities would dilute the interests of the existing Shareholders as they will not be able to participate on an equitable basis;
- the Rights Issue provides an opportunity for the Qualifying Shareholders to maintain their relative percentage of interests in the Company; and
- Qualifying Shareholders who do not wish to take up their entitlements under the Rights Issue in full will have the opportunity to realise the value of their nil-paid Rights Shares by trading them in the stock market.

We concur with the views of the Directors that the Rights Issue is a fair and reasonable fund raising method for the Company to obtain long-term capital to repay its debts and to finance its business operations and future growth.

III. PRINCIPAL TERMS OF THE RIGHTS ISSUE

(a) Basis of the Rights Issue

Three Rights Shares for every two existing Shares held on the Record Date. For details of the issue statistics of the Rights Issue, please refer to the "Letter from the Board" of this Circular.

(b) Subscription Price

The Subscription Price of HK$0.2 per Rights Share is payable in full when a Qualifying Shareholder accepts his/her/its provisional allotment under the Rights Issue or applies for excess Rights Shares or when a transferee of nil-paid Rights Shares subscribes for the Rights Shares.

The Subscription Price of HK$0.2 per Rights Share represents:

(i) a discount of approximately 42.9% to the closing price of HK$0.350 per Share as quoted on the Stock Exchange on 27 February 2013, being the Last Trading Day;

(ii) a discount of approximately 42.0% to the average closing price of approximately HK$0.345 per Share for the last five consecutive trading days as quoted on the Stock Exchange up to and including the Last Trading Day;

(iii) a discount of approximately 39.4% to the average closing price of approximately HK$0.330 per Share for the last ten consecutive trading days as quoted on the Stock Exchange up to and including the Last Trading Day;

(iv) a discount of approximately 23.1% to the theoretical ex-right price of approximately HK$0.260 per Share calculated based on the closing price per Share as quoted on the Stock Exchange on the Last Trading Day;

(v) a discount of approximately 31.0% to the closing price of HK$0.290 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and

(vi) a premium of approximately 545.2% to the unaudited consolidated net tangible asset value per Share of approximately HK$0.031 (based on the latest published audited net tangible asset value of the Group as at 31 December 2012 and 1,862,257,039 Shares in issue as at the Latest Practicable Date).

As the Rights Shares are offered to all Qualifying Shareholders, the Directors have endeavoured to set the Subscription Price at a level that would encourage the Qualifying Shareholders to participate in the Rights Issue and accordingly maintain their shareholdings in the Company and participate in the future growth of the Group.

In order to assess the reasonableness of the Subscription Price, we have compared the Rights Issue with rights issues/open offers conducted by other companies listed on the Stock Exchange in the three months preceding the date of the Announcement. While listed companies differ from one another, it is a common market practice to price a rights issue/open offer at a discount to the market price of the relevant shares in order to encourage subscription by their shareholders.

We have reviewed all rights issues/open offers with announcements published by companies listed on the Stock Exchange during the three months period prior to the date of the Announcement. When selecting the comparable transactions, we have included 19 rights issues/open offers with announcements published during the three months prior to the date of the Announcement. Out of such 19 transactions, 4 of them, namely Freeman Financial Corp Ltd (SEHK: 279), Ming Kei Holdings Ltd (SEHK: 8239), TLT Lottotainment Group Ltd (SEHK: 8022) and Mascotte Holdings Ltd (SEHK: 136), have not issued the relevant prospectuses at the date of the Announcement, which were then excluded in our analysis. We consider that the remaining 15 transactions which form an exhaustive list of rights issues/open offers as summarised in Table 1 (i) have entered into underwriting agreements with the respective underwriters on an arm's length basis and which are legally binding; and (ii) it is uncommon for the terms of the rights issues and/or open offers to be changed after the prospectuses are published; and therefore we consider Table 1 to be representative. During our analysis, we have also identified certain exceptional ("Excluded Companies"), such as FU JI Food and Catering Services Holdings Ltd (SEHK: 1175) and Aurum Pacific China Group Ltd (SEHK: 8148), which we consider not appropriate for comparison mainly due to prolonged suspension (suspension since July 2009 and March 2007 respectively) in the trading of their respective shares.

We consider the selection of such three months period to be sufficient and appropriate for our analysis for fund raising exercises such as rights issues/open offers, as the market sentiment at the relevant time in general plays an important role in the determination of the subscription price, while reasonable number of such fund raising exercises could be included for reference purposes.

Table1: List of companies with fund raising exercises through rights issues/open offers during the three months period prior to the date of Announcement:

Announcement Date	Stock Code	Company Name	Market Capitalisation as at the Latest Practicable Date (HK$ 'million)	Maximum size of rights issue/open offer (HK$' million)	Basis	Subscription Price (HK$)	Last Trading Day Price(Adjusted for Consolidation/ Subdivision) (HK$)	Premium/ Discount to Last Trading Date Price	Premium/ Discount to theoretical ex-right Price	Maximum Dilution	Underwriting Commission	Independent Thrid Party underwriter (Y/N)
2012/12/12	8047	China Neng Xiao Technology Group Ltd	280.45	25.26	1 for 2	0.025	0.094	-73.40%	-64.79%	33.33%	3.50%	Y
2012/12/13	329	Dragonite International Ltd	163.20	106.08	1 per 1	1.000	1.960	-48.98%	-32.43%	50.00%	2.50%	Y
2012/12/13	2882	Hong Kong Resources Holdings Co Ltd	523.78	128.26	2 for 5	0.150	0.300	-50.00%	-41.63%	28.57%	1.70%	Y
2012/12/14	36	Far East Holdings International Ltd	122.65	30.42	1 for 2	0.200	0.330	-39.39%	-30.24%	33.33%	4.50%	N
2013/1/3	2324	Capital VC Ltd	7.07	40.42	1 for 2	0.650	0.870	-25.29%	-18.41%	33.33%	3.00%	Y
2013/1/6	800	A8 Digital Music Holdings Ltd	557.25	225.85	2 for 1	0.360	0.750	-52.00%	-26.53%	66.67%	2.00%	N
2013/1/8	307	Up Energy Development Group Ltd	1,273.64	424.45	1 for 2	0.500	1.100	-54.50%	-44.40%	33.33%	2.00%	N
2013/1/15	757	Solargiga Energy Holdings Ltd	1,106.14	254.11	1 for 5	0.510	0.580	-12.07%	-10.26%	16.67%	1.00%	Y
2013/1/25	2331	Li Ning Co Ltd	4,245.48	1,868.59	1 for 2	3.500	6.210	-43.64%	-34.05%	33.33%	2.50%	N
2013/1/28	885	Forefront Group Ltd	151.72	65.33	1 for 2	0.250	0.395	-36.71%	-27.88%	33.33%	3.00%	Y
2013/1/29	993	Simsen International Corp Ltd	60.39	181.17	3 for 1	0.095	0.192	-50.52%	-20.17%	75.00%	2.50%	Y
2013/1/30	1822	Perception Digital Holdings Ltd	120.45	41.49	1 for 2	0.129	0.205	-37.27%	-28.36%	33.33%	3.00%	Y
2013/2/22	1127	1010 Printing Group Ltd	483.00	100.00	2 for 5	0.500	0.790	-36.70%	-29.60%	28.57%	0%	N
2013/2/28	102	Summit Ascent Holdings Ltd	1,491.88	87.03	3 for 10	1.200	2.960	-59.46%	-53.01%	23.08%	1.25%	Y
2013/3/6	665	Haitong International Securities Group Ltd	2,819.26	1,202.36	1 for 2	2.550	4.180	-39.00%	-29.88%	33.33%	13.5million	Y *(Note 1)*
			Maximum					-73.40%	-64.79%	75.00%	4.50%	
			Minimum					-12.07%	-10.26%	16.67%	0%	
			Average	**318.72**				**-43.93%**	**-32.78%**	**37.01%**	**2.32%**	
2012/3/11	**3989**	**the Company**		**583.66**	**3 for 2**	**0.200**	**0.350**	**-42.90%**	**-23.10%**	**60.00%**	**0%**	**N**

Excluded

Announcement Date	Stock Code	Company Name	Market Capitalisation as at the Latest Practicable Date (HK$ 'million)	Maximum size of rights issue/open offer (HK$' million)	Basis	Subscription Price (HK$)	Last Trading Day Price(Adjusted for Consolidation/ Subdivision) (HK$)	Premium/ Discount to Last Trading Date Price	Premium/ Discount to theoretical ex-right Price	Maximum Dilution	Underwriting Commission	Independent Thrid Party underwriter (Y/N)
2013/1/21	1175	FU JI Food and Catering Services Holdings Ltd		40.06	1 for 1	0.740	76.000	-99.03%	-98.07%	50.00%	0%	Y
2012/12/21	8148	Aurum Pacific China Group Ltd		60.00	4 for 1	0.150	0.620	-75.81%	-38.52%	80.00%	2.50%	Y
2012/12/4	279	Freeman Financial Corp Ltd		162.51	2 for 1	0.850	1.750	-51.43%	-26.09%	66.67%	3.00%	N
2013/1/17	8239	Ming Kei Holdings Ltd		50.45	5 for 1	0.020	0.480	-95.83%	-79.31%	83.33%	4.00%	Y
2013/2/7	8022	TLT Lottotainment Group Ltd		65.82	2 for 1	0.500	0.335	49.25%	12.36%	66.67%	3.00%	Y
2013/2/4	136	Mascotte Holdings Ltd		515.62	4 for 1	0.070	0.205	-65.85%	-27.84%	80.00%	3.00%	Y

Note 1 According to the announcement dated 6 March 2013, there are two joint bookrunners, The Hongkong and Shanghai Banking Corporation Limited, is an independent third party, and Haitong International Holdings Limited, a major shareholder of the issuer

As shown in Table 1, the companies had subscription prices at a discount to their respective closing price per share on the last full trading day prior to the release of the relevant announcements within a range from a discount of approximately 12.07% to 73.40%. In the case of the Rights Issue, the discount of the Subscription Price of HK$0.20 to the closing price on the Last Trading Day is approximately 42.90% which is within the range of the companies set out in Table 1, and less than their average discount of 43.93%. With regard to the discount to the theoretical ex-right price per share of the companies set out in Table 1, they ranged from a discount of approximately 10.26% to 64.79%, with an average of approximately 32.78% discount. In the case of the Rights Issue, the Subscription Price has a discount of approximately 23.10% to the theoretical ex-right price per Share, which also falls within the range of the companies set out in Table 1, and less than their average discount. Regarding the maximum dilution, they range from approximately 16.67% to approximately 75.00%, while the maximum dilution of the Rights Issue falls within this range as set out in Table 1.

The Subscription Price was determined after arm's length negotiations between the Company and the Underwriter with reference to the current market price and the financial requirements of the Company. As the Rights Shares are offered to all Qualifying Shareholders, the Directors considered that the aforesaid discount would attract the Qualifying Shareholders to participate in the Rights Issue and maintain their shareholdings accordingly. We are of the view that the terms of the Rights Issue, including the Subscription Price, are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

(c) Excess application for Rights Shares

Qualifying Shareholders are entitled to apply, by way of excess application, for (i) any unsold nil-paid Rights Shares of the Non-Qualifying Shareholders; (ii) any unsold Rights Shares created by adding together fractions of nil-paid Rights Shares; and (iii) any nil-paid Rights Shares provisionally allotted to Qualifying Shareholders but not subscribed for. For details of application, please refer to the "Letter from the Board" of this Circular. We are of the view that the above excess application mechanism is fair and reasonable to Independent Shareholders as Qualifying Shareholders are given the first rights to subscribe for any Rights Shares not taken up before the Underwriter.

IV. POSSIBLE FINANCIAL EFFECTS OF THE RIGHTS ISSUE

(a) Adjusted net tangible assets

Based on the information set out in the "Unaudited pro forma financial information of the Group" contained in Appendix II to the Circular, the pro forma adjusted consolidated net tangible assets of the Group ("Pro Forma NTA") would amount to approximately HK$613.1 million as a result of the completion of the Rights Issue and receipt of an estimated net proceeds from the Rights Issue of approximately HK$554.7 million.

Assuming completion of the Rights Issue, the Pro Forma NTA per Share would be approximately HK$0.132, representing increase of approximately 319.4% from net tangible asset per Share prior to the completion of the Rights Issue of approximately HK$0.031.

(b) Cash resources

According to Appendix I to the Circular, the Group had bank balances and cash of approximately HK$263.2 million as at 31 December 2012.

With the net cash proceeds from the Rights Issue receivable by the Company, the Company plans to apply of approximately HK$210 million for repayment of debt (which may include the Convertible Bond I), approximately HK$160 million for funding of mergers and acquisitions and other investments to be identified by the Company, and the balance of HK$32.7 million for the general working capital of the Group.

(c) Gearing ratio

According to Appendix I to the Circular, the Group's total bank borrowings and total equity as at 31 December 2012 were approximately HK$266.5 million and HK$51.2 million respectively. The Company's gearing ratio (being the ratio of total borrowings to total equity) was therefore approximately 5.20x. Based on the enhanced cash position and enlarged capital base upon completion of the Rights Issue, the Company's gearing ratio is expected to be improved.

Based on the above analysis where the Rights Issue would improve the overall financial position of the Company, we are of the view that, in this respect, it is beneficial to the Company and the Independent Shareholders as a whole.

V. TERMS OF THE UNDERWRITING AGREEMENT

Pursuant to the Underwriting Agreement, the Underwriter has agreed to fully underwrite not less than 2,344,852,557 but not more than 2,469,743,793 Rights Shares, being all Rights Shares deducting the Rights Shares to be allotted to the Underwriter on an assured basis, which have been undertaken to be accepted and subscribed by it pursuant to the Underwriting Agreement. Details on the conditions of the Underwriting Agreement are stated in the section headed "Underwriting Agreement" in the "Letter from the Board".

The Company will not pay the Underwriter for any underwriting commission, which was arrived at after arm's length negotiations. The Directors believe the Company will be benefited from such arrangement as the total underwriting expense decreased so far as the Independent Shareholders are concerned.

Payment of Rights Shares subscription by the Underwriter and the Set-off Arrangement

Also pursuant to the Underwriting Agreement, the Underwriter and the Company have agreed if conditions (a)(iii) and (c) under paragraph headed "Conditions of the Rights Issue" have been fulfilled and not waived by the Underwriter, the total Subscription Price of the Rights Shares to be taken up by the Underwriter shall be paid as to any amount up to HK$177 million out of the outstanding principal amount of the Convertible Note I available with the remaining balance (if any) by cheques or cashier order to the Company. Accordingly, upon completion of the Rights Issue, the Company will be able to reduce its debt and so improve its gearing ratio by settling the outstanding principal amount of the Convertible Note I from the total Subscription Price without any additional cash outflow from the Group.

Shareholders should note that (i) as per this Rights Issue, if conditions (a)(iii) and (c) under paragraph headed "Conditions of the Rights Issue" have been fulfilled and not waived by the Underwriter, approximately 30.3% of the maximum gross proceeds of HK$583.7 million will be used to set off the Convertible Note I; (ii) the Company has other external loans due within the upcoming 12 months from the date of the Circular, the net cash proceeds generated from the Rights Issue could satisfy the repayment of the entire amount; and (iii) the Subscription Price of HK$0.2 per Share represents a discount of approximately 42.9% to the closing price of HK$0.35 per Share as quoted on the Stock Exchange on the Last Trading Day. However, we have taken into account the following reasons as described in the paragraphs above:

- the aggregate Subscription Price of the Rights Issue Shares will be settled by way of setting off of Convertible Note I with the outstanding principal amount of HK$177 million on a dollar-to-dollar basis;

- the setting off of Convertible Note I could be settled without any cash outflow of the Group;

- the total debt balance and overall gearing ratio of the Company will be improved as a result of the Set-off Arrangement;

- although the Rights Issue was priced at a discount of approximately 42.9% to the closing price per Share on the Last Trading Day, the nature of a rights issue enables the Qualifying Shareholders (all Shareholders, that is, not just the controlling Shareholder) the opportunity to maintain their respective pro-rata shareholding interests in the Company at the same price;

- the discount rate of the Subscription Price to the closing price per Share on the Last Trading Day falls within the range of the companies set out in Table 1 and below the average discount of these companies; and

- as for all rights issues, the interests of the Qualifying Shareholders will not be prejudiced by the relatively big discount of the Subscription Price so long as they are offered an equal opportunity to participate in the exercise.

We consider the Set-off arrangement as prescribed in the Underwriting Agreement is fair and reasonable and is in the interests of the Company and the Independent Shareholders as a whole.

VI. POSSIBLE DILUTION EFFECT OF THE RIGHTS ISSUE ON THE SHAREHOLDING INTERESTS

As the Rights Issue is to be offered to all Qualifying Shareholders on the same basis, the Qualifying Shareholders will be able to maintain their proportional interests in the Company if they take up their allotments under the Rights Issue in full. Any Qualifying Shareholders who choose not to take up in full their assured allotments under the Rights Issue will have their shareholdings in the Company diluted by up to a maximum of approximately 60.0%. The possible dilution of the Rights Issue on shareholding interests were set out in the section headed "Shareholding in the Company" in the "Letter from the Board" of this Circular.

As in all rights issues/open offers, a dilution in the shareholding of those Qualifying Shareholders who do not take up in full their assured entitlements under the Rights Issue is inevitable. The dilution magnitude of any rights issues/open offers depends mainly on the extent of the basis of entitlement under such exercises, where the higher the offering ratio of right shares to existing shares is, the greater the dilution on the existing shareholding would be. Based on our review of the companies set out in Table 1, the effect of such maximum dilution ranged from 16.67% to 83.33%. The possible maximum dilution of 60.0% as in the case of the Rights Issue falls within the aforesaid range of the companies set out in Table 1 while the offering ratio of the Rights Issue corresponds to those commonly implemented by the companies set out in Table 1. We are of the view that the level of potential dilution to Qualifying Shareholders who do not take up their entitlements under the Rights Issue is acceptable.

VII. WHITEWASH WAIVER

Beijing Capital (Hong Kong) Limited, a company wholly-owned by Beijing Capital, is the Underwriter and a substantial Shareholder, interested in: (i) aggregate of 299,022,000 Shares, representing approximately 16.06% of the issued share capital of the Company as at the Latest Practicable Date; (ii) the Convertible Note I, with outstanding principal amounts of HK$177 million carrying the right to convert into Shares at HK$1.13 each; and (iii) Convertible Bond II, with outstanding principal amount of HK$100 million carrying the right to convert into Shares at HK$0.4 each. BC Water Investments Co., Ltd., which is wholly-owned by Beijing Capital, is a party acting in concert with the Underwriter. BC Water Investments Co., Ltd. is interested in 9,284,000 Shares, representing approximately 0.5% of the issued share capital of the Company as at the Latest Practicable Date.

If the Underwriter is required to take up any Rights Shares pursuant to its underwriting commitment in connection with the Rights Issue and/or pursuant to its application for any excess Rights Shares that may be accepted by the Company, the Underwriter may trigger an obligation to make a mandatory offer under Rule 26.1 of the Takeovers Code. Based on the maximum number of 2,918,276,793 Rights Shares proposed to be issued, upon completion of the Rights Issue, assuming that (i) no Qualifying

Shareholders (other than the Underwriter) takes up any Rights Shares; and (ii) the number of issued Shares remains unchanged (save for the full exercise of the Share Option and the full conversion of the Convertible Note II), the Underwriter pursuant to the Underwriting Agreement will be required to subscribe for 2,918,276,793 Rights Shares, which will result in the Underwriter and parties acting in concert with it beneficially interested in 3,226,582,793 Shares, representing approximately 66.34% of the enlarged issued share capital of the Company upon completion of the Rights Issue, thereby triggering an obligation of the Underwriter and parties acting in concert with it to make a mandatory general offer under Rule 26.1 of the Takeovers Code for all the Shares not already owned or agreed to be acquired by it and persons acting in concert with it. An application has been made by the Underwriter to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code, and the Executive has indicated that the Whitewash Waiver will be granted subject to, among other things, the approval of the Rights Issue and the Whitewash Waiver by the Independent Shareholders at the EGM by way of poll.

Upon completion of the Rights Issue, the Underwriter and parties acting in concert with it may hold more than 50% of the enlarged issued share capital of the Company in which case, the Underwriter may increase its shareholding in the Company without incurring any further obligation under Rule 26 of the Takeovers Code to make a general offer.

As stated in the "Letter from the Board" of this Circular, the Rights Issue is conditional upon, among other things, the Executive granting the Whitewash Waiver to the Underwriter. Based on our analysis of the terms of the Rights Issue, reasons for the Rights Issue and the use of proceeds of the Rights Issue as set out above, we consider that the Rights Issue is in the interests of the Company and the Independent Shareholders as a whole. If the Whitewash Waiver is not granted by the Executive or if the Whitewash Waiver is not approved by the Independent Shareholders, the Rights Issue will not become unconditional and will not proceed and the Company will not receive the proceeds from the Rights Issue. Given that (i) the Group's financial position and the total equity attributable to the owners of Company will be strengthened as a result of the Rights Issue; (ii) the net cash proceeds from the Rights Issue are intended to be used to provide funding for repayment of debt and potential mergers and acquisitions in the future; and (iii) all Qualifying Shareholders will be provided with an equal opportunity to take up the Rights Shares in accordance with their provisional entitlements under the Rights Issue and their respective interests in the Company will not be diluted if they elect to take up in full of their provisional allotments under the Rights Issue, we are in the opinion that, for the purposes of implementing the Rights Issue as discussed above, the approval of the Whitewash Waiver by the Independent Shareholders at the EGM is in the interests of the Company and the Independent Shareholders as a whole.

VIII. SPECIAL DEALS

The Set-off Arrangement

Pursuant to the Underwriting Agreement, the Underwriter has agreed with and instructed the Company to set off the total Subscription Price of the Rights Shares to be subscribed under the Rights Issue up to HK$177,000,000 against the outstanding principal amount of the Convertible Note I, subject to the Rights Issue becoming unconditional and conditions (a)(iii) and (c) under paragraph headed "Conditions of the Rights Issue" in this Circular having been fulfilled and not waived by the Underwriter. The Underwriter and the Company agree to amend the terms of the Convertible Note I such that the Convertible Note I shall be redeemed to effect the Set-off Arrangement.

Pursuant to a subordination deed entered into among the Company, the Underwriter and Waste Resources G.P. Limited (holder of the Convertible Bond I), the Convertible Note I is subordinated to the Convertible Bond I and the repayment of the Convertible Note I is subject to the consent of Waste Resources G.P. Limited so long as the Convertible Bond I remains outstanding.

Given that the Underwriter is a substantial Shareholder and that the Set-off Arrangement is not extended to all Shareholders, for the purpose of applying for the Whitewash Waiver, the Set-off Arrangement constitutes a special deal for the Company under Rule 25 of the Takeovers Code.

We were advised that the Directors have considered other means of fund raising such as share placement or issue of convertible securities. However, after approaching several securities brokerage firms, the Directors were unable to identify any underwriter willing to undertake such fund raising exercise, except Beijing Capital (Hong Kong) Limited, given the current stock market sentiment and the financial position of the Group. We were advised that the Directors have also considered debt financing but after approaching several commercial banks, there were no banks that were willing to extend or increase their credit facilities or bank borrowings to the Company due to its relatively high gearing ratio, and the lack of any tangible assets as collateral.

We note that the Company has some imminent funding needs for (i) the early redemption of Convertible Bond (notwithstanding the fact that the Company has received the irrevocable put option exercise notice from Waste Resources G.P. Limited on 15 April 2013); and (ii) the development of waste treatment and waste-to-energy projects, including but not limited to Xingtai Investment and Huizhou City Project, details of which are stated under the paragraph headed "Future investments" in this letter.

Having considered the above and upon discussion with the management of the Company, we agree with the Directors' view that the Company is facing liquidity issue and requires funding for its financial and operational obligations, and that the Rights Issue provides a valid funding channel for such purpose which is in the interests of the

Company and its Shareholders as a whole. We have considered the followings: (i) the continued loss incurred from the operation of the Group and the high gearing financial position which make the Company difficult to obtain funding by way of share placement, issue of convertible securities and debt financing, and the Rights Issue is currently the only resource accessible and available to the Group to support its operation at the material time; (ii) the Underwriter has been providing continuing financial support to the Company including the subscription of Convertible Note I and Convertible Bond II, entered into three fixed-rate loan agreements with the Company in 2012 amounted approximately HK$121 million and also entered into a variable-rate loan agreement with the Company in 2012 amounted to approximately HK$19 million; (iii) the Set-off Arrangement would reduce the Group's gearing ratio and strengthen the financial position and capital base of the Group without any additional cash outflow; (iv) the Convertible Bond II, Convertible Note I and Convertible Note II, with a total outstanding amount of HK$293 million, will be due in December 2014. Based on the capital commitment of the projects on hand, including but not limited to Xingtai Investment, and the expected progress of these projects, the Company may have difficulty in repayment these debts in full without having any material impact on the operation of the Group. Also there may be uncertainty that whether the Group will be able to raise funding externally to repay such debts when approaching the respective maturity dates of such debts in 2014. Therefore the Set-off Arrangement allows the Group to partially alleviate the impending financial burden in 2014. Also, we note that the conversion price of Convertible Note I is HK$1.13 per Share which is approximately by 289.7% Premium over the closing price of HK$0.290 per Share on the Latest Practicable Date, as such we are of the view that it would be unlikely for the market price to reach the conversion price before the maturity date in December 2014 and it would make no difference for the Company to set-off the Convertible Note I by the total Subscription Price and the Company fully redeem it upon maturity and (v) in the event the conditions (a)(iii) and/or (c) are not waived by the Underwriter, the Rights Issue can not be proceeded successfully, the Company may not be able to identify other financing alternatives, there will be a material uncertainty which may cause significant doubt to the Group's ability to continue its existing operations or future business development. Therefore, we consider that the Set-off Arrangement by the proceeds from the Rights Issue which constitutes the Special Deals is fair and reasonable so far as the Company and the Independent Shareholders are concerned.

The possible repayment of the Convertible Bond I

It is intended that part of the net proceeds from the Rights Issue will be used to repay certain debts of the Group, which may include the Convertible Bond I. The holder of the Convertible Bond I, Waste Resources G.P. Limited is a Shareholder holding 9,341,000 Shares, representing approximately 0.5% of the issued share capital of the Company as at the Latest Practicable Date. Given that the holder of the Convertible Bond I is a Shareholder and that the possible repayment of the Convertible Bond I is not extended to all Shareholders, for the purpose of applying for the Whitewash Waiver, the possible repayment of the Convertible Bond I constitutes a special deal for the Company under Rule 25 of the Takeovers Code.

The Company has made an application to the Executive for consent under Rule 25 of the Takeovers Code in relation to the Special Deals. The Executive has indicated that the consents to Special Deals will be granted and will be conditional upon (i) the approval of the Independent Shareholders by way of poll at the EGM and (ii) we publicly give an opinion that the terms of the Special Deals are fair and reasonable.

The Underwriter, Waste Resources G.P. Limited and parties acting in concert with any of them and those who are involved in or interested in the Whitewash Waiver and/or the Special Deals and their respective associates are required by the Listing Rules and the Takeovers Code to abstain from voting on the proposed resolutions approving the Rights Issue, the Whitewash Waiver, the Special Deals and the transactions contemplated thereunder at the EGM.

RECOMMENDATIONS

Having considered the above principal factors and reasons, we concur with the view of the Directors that the Rights Issue is a fair and reasonable method for the Company to obtain long-term capital, and are of the view that the Whitewash Waiver and Special Deals Consent, which are to facilitate the implementation of the Rights Issue, is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to recommend that the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Rights Issue, the Whitewash Waiver and Special Deals.

Yours faithfully,
For and on behalf of
China Galaxy International Securities (Hong Kong) Co., Limited
Steven Chiu
Managing Director
Investment Banking

A. FINANCIAL SUMMARY

The following is a summary of the consolidated financial information of the Group for the three years ended 31 December 2010, 2011 and 2012. Save as (i) a very substantial disposal of a subsidiary of the Group (details of which were set out in the Company's announcements dated 24 December 2009 and 16 July 2010, and circular dated 24 September 2010); and (ii) a disposal of a wholly-owned subsidiary (details of which were set out in note 13 to the financial statements of the Company for the year ended 31 December 2012 as set out in section B of this appendix), no exceptional item due to size, nature or incidence was noted for each of the three years ended 31 December 2012.

The Company's auditors, Deloitte Touche Tohmatsu, have not issued any qualified opinion or modified audited opinion on the Group's financial statements for the three years ended 31 December 2010, 2011 and 2012.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the year ended 31 December

	2012 *HK$'000* (Audited)	2011 *HK'000* (Restated)	2010 *HK$'000* (Restated)
Continuing operations			
Revenue	17,609	20,147	51,633
Cost of sales	(18,081)	(55,414)	(152,236)
Gross loss	(472)	(35,267)	(100,603)
Other income, gains and losses	(27,568)	(68,842)	(58,953)
Gain on fair value change of embedded derivatives	(16,484)	3,241	23,896
Administrative expenses	(68,057)	(38,034)	(118,153)
Gain on disposal of subsidiaries	—	—	38,719
Impairment loss on goodwill	—	—	(415,913)
Share of results of an associate	7,874	11,358	1,675
Finance costs	(50,839)	(60,213)	(79,567)
Loss before tax	(155,546)	(187,757)	(708,899)
Income tax credit	2,869	3,914	11,601
Loss for the year from continuing operations	(152,677)	(183,843)	(697,298)
Discontinued operations			
Profit/(loss) for the year from discontinued operations	4,852	(163,290)	(83,698)
Loss for the year	(147,825)	(347,133)	(780,996)

	2012 *HK$'000* (Audited)	2011 *HK'000* (Restated)	2010 *HK$'000* (Restated)
Other comprehensive (expense)/income			
Exchange differences on translation:			
Exchange difference during the year	192	5,828	69,113
Exchange difference arising from an associate during the year	779	3,971	2,079
Reclassification adjustment upon disposal of subsidiaries	(3,607)	—	(52,138)
Other comprehensive (expense)/income for the year (net of tax)	(2,636)	9,799	19,054
Total comprehensive expense for the year	(150,461)	(337,334)	(761,942)
Loss for the year attributable to:			
Owners of the Company	(147,054)	(325,504)	(742,303)
Non-controlling interests	(771)	(21,629)	(38,693)
	(147,825)	(347,133)	(780,996)
Total comprehensive expense attributable to:			
Owners of the Company	(150,310)	(315,294)	(724,667)
Non-controlling interests	(151)	(22,040)	(37,275)
	(150,461)	(337,334)	(761,942)
Loss per share			
From continuing and discontinued operations			
Basic *(HK cents)*	(8.99)	(25.92)	(85.51)
Diluted *(HK cents)*	(8.99)	(25.92)	(85.51)
From continuing operations			
Basic *(HK cents)*	(9.28)	(12.92)	(75.87)
Diluted *(HK cents)*	(9.28)	(12.92)	(75.87)
Dividend	Nil	Nil	Nil

The following is a summary of the consolidated balance sheets as at 31 December 2010, 2011 and 2012 as extracted from the respective annual reports of the Group.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As at 31 December

	2012	**2011**	**2010**
	HK$'000	*HK$'000*	*HK$'000*
	(Audited)	(Audited)	(Audited)
Non-current assets			
Property, plant and equipment	15,965	13,522	32,610
Intangible assets	2,318	3,786	5,254
Prepaid lease payments	2,277	2,314	2,262
Amounts due from grantors for contract work	383,339	193,581	155,404
Amount due from a related company	—	—	60,238
Amount due from an investee	45,267	59,500	—
Amount due from an associate	6,219	—	—
Available-for-sale investment	—	—	44,152
Interest in an associate	101,831	93,178	78,775
Deposits paid for construction of infrastructure in service concession arrangements	174,981	179,299	152,890
	732,197	545,180	531,585
Current assets			
Inventories	—	—	27,225
Trade receivables	7,411	31,986	105,188
Deposits, prepayments and other receivables	32,267	48,064	76,319
Amounts due from grantors for contract work	9,453	—	—
Prepaid lease payments	52	52	50
Amount due from a related company	—	—	58,466
Amount due from an associate	12,708	980	2,948
Pledged bank deposits	—	—	3,538
Bank balances and cash	263,239	54,859	34,280
	325,130	135,941	308,014

	2012	2011	2010
	HK$'000	*HK$'000*	*HK$'000*
	(Audited)	(Audited)	(Audited)
Current liabilities			
Trade payables	23,863	31,958	30,297
Other payables	42,326	27,610	19,404
Provisions	192,969	179,298	110,316
Amount due to a shareholder	—	2,366	—
Taxation payable	15,638	18,069	17,560
Obligations under finance leases			
— due within one year	—	17	593
Borrowings	26,592	52,250	67,689
Bank overdrafts	—	—	2
	301,388	311,568	245,861
Net current assets/(liabilities)	23,742	(175,627)	62,153
Total assets less current liabilities	755,939	369,553	593,738
Non-current liabilities			
Obligations under finance leases			
— due after one year	—	44	61
Convertible notes	150,400	132,279	251,730
Convertible bonds	252,200	155,083	133,867
Embedded derivatives	54,152	8,460	11,701
Borrowings	239,899	—	—
Promissory notes	—	—	96,757
Deferred consideration payable	—	—	461
Deferred tax liabilities	8,071	10,957	27,682
	704,722	306,823	522,259
	51,217	62,730	71,479
Capital and reserves			
Share capital	186,226	155,188	101,053
Reserves	(125,478)	(73,750)	(32,906)
Equity attributable to owners of the Company	60,748	81,438	68,147
Non-controlling interests	(9,531)	(18,708)	3,332
	51,217	62,730	71,479

B. AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

Set out below is the audited consolidated financial statements of the Group for the year ended 31 December 2012 as extracted from the annual report of the Group for the year ended 31 December 2012.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	NOTES	**2012** ***HK$'000***	2011 *HK$'000* (restated)
Continuing operations			
Revenue	7	**17,609**	20,147
Cost of sales		**(18,081)**	(55,414)
Gross loss		**(472)**	(35,267)
Other income, gains and losses	9	**(27,568)**	(68,842)
(Loss) gain on fair value change of embedded derivatives	35	**(16,484)**	3,241
Administrative expenses		**(68,057)**	(38,034)
Share of results of an associate	24	**7,874**	11,358
Finance costs	10	**(50,839)**	(60,213)
Loss before tax	11	**(155,546)**	(187,757)
Income tax credit	12	**2,869**	3,914
Loss for the year from continuing operations		**(152,677)**	(183,843)
Discontinued operations			
Profit (loss) for the year from discontinued operations	13	**4,852**	(163,290)
Loss for the year		**(147,825)**	(347,133)
Other comprehensive (expense) income			
Exchange differences arising on translation:			
Exchange difference during the year		**192**	5,828
Exchange difference arising from an associate on translation		**779**	3,971
Reclassification adjustment upon disposal of subsidiaries		**(3,607)**	—
Other comprehensive (expense) income for the year (net of tax)		**(2,636)**	9,799
Total comprehensive expense for the year		**(150,461)**	(337,334)

	NOTE	2012 HK$'000	2011 HK$'000 (restated)
(Loss) profit for the year attributable to owners of the Company:			
— from continuing operations		**(151,906)**	(162,214)
— from discontinued operations		**4,852**	(163,290)
Loss for the year attributable to owners of the Company		**(147,054)**	(325,504)
Loss for the year attributable to non-controlling interests:			
— from continuing operations		**(771)**	(21,629)
— from discontinued operations		**—**	—
Loss for the year attributable to non-controlling interests		**(771)**	(21,629)
		(147,825)	(347,133)
Total comprehensive expense attributable to:			
Owners of the Company		**(150,310)**	(315,294)
Non-controlling interests		**(151)**	(22,040)
		(150,461)	(337,334)
Loss per share	17		
From continuing and discontinued operations			
Basic		**HK(8.99) cents**	HK(25.92) cents
Diluted		**HK(8.99) cents**	HK(25.92) cents
From continuing operations			
Basic		**HK(9.28) cents**	HK(12.92) cents
Diluted		**HK(9.28) cents**	HK(12.92) cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	NOTES	2012 HK$'000	2011 HK$'000
Non-current assets			
Property, plant and equipment	18	**15,965**	13,522
Intangible assets	19	**2,318**	3,786
Prepaid lease payments	21	**2,277**	2,314
Amounts due from grantors for contract work	22	**383,339**	193,581
Amount due from an investee	27	**45,267**	59,500
Amount due from an associate	28	**6,219**	—
Interest in an associate	24	**101,831**	93,178
Deposits paid for construction of infrastructure in service concession arrangements	25	**174,981**	179,299
		732,197	545,180
Current assets			
Trade receivables	26(a)	**7,411**	31,986
Deposits, prepayments and other receivables	26(b)	**32,267**	48,064
Amounts due from grantors for contract work	22	**9,453**	—
Prepaid lease payments	21	**52**	52
Amount due from an associate	28	**12,708**	980
Bank balances and cash	29	**263,239**	54,859
		325,130	135,941
Current liabilities			
Trade payables	30(a)	**23,863**	31,958
Other payables and accruals	30(b)	**42,326**	27,610
Provisions	30(c)	**192,969**	179,298
Amount due to a shareholder	31	**—**	2,366
Taxation payable		**15,638**	18,069
Obligations under finance leases — due within one year	32	**—**	17
Borrowings	33	**26,592**	52,250
		301,388	311,568
Net current assets (liabilities)		**23,742**	(175,627)
Total assets less current liabilities		**755,939**	369,553

	NOTES	2012 HK$'000	2011 HK$'000
Non-current liabilities			
Obligations under finance leases			
— due after one year	32	—	44
Convertible notes	34	**150,400**	132,279
Convertible bonds	35	**252,200**	155,083
Embedded derivatives	35	**54,152**	8,460
Borrowings	33	**239,899**	—
Deferred tax liabilities	36	**8,071**	10,957
		704,722	306,823
		51,217	62,730
Capital and reserves			
Share capital	37	**186,226**	155,188
Reserves		**(125,478)**	(73,750)
Equity attributable to owners of the Company		**60,748**	81,438
Non-controlling interests		**(9,531)**	(18,708)
		51,217	62,730

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Attributable to owners of the Company									
	Share capital	Share premium	Translation reserve	Share options reserve	Special reserve	Convertible notes equity reserve	Accumulated losses	Total	Non-controlling interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* *(Note a)*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2011	101,053	953,917	61,747	2,083	29,677	389,426	(1,469,756)	68,147	3,332	71,479
Loss for the year	—	—	—	—	—	—	(325,504)	(325,504)	(21,629)	(347,133)
Exchange differences on translation	—	—	6,239	—	—	—	—	6,239	(411)	5,828
Exchange differences arising from an associate on translation	—	—	3,971	—	—	—	—	3,971	—	3,971
Total comprehensive expense for the year	—	—	10,210	—	—	—	(325,504)	(315,294)	(22,040)	(337,334)
Issue of shares *(Note 37(a))*	20,202	60,607	—	—	—	—	—	80,809	—	80,809
Issue of shares upon redemption of promissory notes *(Note 37(b))*	6,933	15,252	—	—	—	—	—	22,185	—	22,185
Share issuance expenses	—	(2,329)	—	—	—	—	—	(2,329)	—	(2,329)
Issue of shares upon conversion of convertible notes *(Note 37(c))*	27,000	416,190	—	—	—	(228,664)	—	214,526	—	214,526
Deferred tax transferred upon conversion of convertible notes	—	—	—	—	—	13,394	—	13,394	—	13,394
At 31 December 2011	155,188	1,443,637	71,957	2,083	29,677	174,156	(1,795,260)	81,438	(18,708)	62,730
Loss for the year	—	—	—	—	—	—	(147,054)	(147,054)	(771)	(147,825)
Exchange differences on translation	—	—	(428)	—	—	—	—	(428)	620	192
Exchange differences arising from an associate on translation	—	—	779	—	—	—	—	779	—	779
Released on disposal of subsidiaries *(Note 39)*	—	—	(3,607)	—	—	—	—	(3,607)	—	(3,607)
Total comprehensive expense for the year	—	—	(3,256)	—	—	—	(147,054)	(150,310)	(151)	(150,461)
Issue of shares *(Note 37(d))*	31,038	100,996	—	—	—	—	—	132,034	—	132,034
Share issuance expenses	—	(2,414)	—	—	—	—	—	(2,414)	—	(2,414)
Acquisition of subsidiaries	—	—	—	—	—	—	—	—	9,328	9,328
Disposal of subsidiaries	—	—	—	(398)	(4,522)	—	4,920	—	—	—
Lapse of share options	—	—	—	(1,458)	—	—	1,458	—	—	—
At 31 December 2012	186,226	1,542,219	68,701	227	25,155	174,156	(1,935,936)	60,748	(9,531)	51,217

Note:

(a) The special reserve represents the difference between the aggregate of the nominal value of share capital and share premium of Full Prosper Holdings Limited acquired by the Company pursuant to a group reorganisation in June 2006 and the nominal value of the share capital issued by the Company as consideration for the acquisition.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	NOTES	2012 HK$'000	2011 HK$'000
OPERATING ACTIVITIES			
Loss for the year		**(147,825)**	(347,133)
Adjustments for:			
Income tax credit		**(2,869)**	(3,914)
Depreciation of property, plant and equipment		**2,252**	3,762
Amortisation of prepaid lease payments		**52**	52
Provision for expected losses in relation to service concession arrangements		**—**	35,287
Finance costs		**50,839**	60,226
Gain on redemption of promissory notes by issue of ordinary shares of the Company		**—**	(15,564)
Interest income		**(14,055)**	(11,708)
Effective interest income on amount due from an investee		**—**	(4,726)
(Reversal of) impairment loss recognised in respect of trade receivables		**(853)**	94,046
Impairment loss recognised in respect of deposits, prepayments and other receivables		**10,837**	49,429
Impairment loss recognised in respect of deposits, paid for construction of infrastructure in service concession arrangements		**6,158**	—
Impairment loss on amount due from an investee		**14,595**	—
Share of results of an associate		**(7,874)**	(11,358)
Loss (gain) on fair value change of embedded derivatives		**16,484**	(3,241)
Gain on disposal of property, plant and equipment		**(5)**	(6,220)
Amortisation of intangible assets		**1,468**	1,468
Provision for penalty charges in relation to construction of waste-to-energy plant	30(c)	**11,207**	27,410
Gain on disposal of discontinued operations	13	**(4,567)**	—
Net unrealised exchange gain		**(1,547)**	(8,626)
Impairment loss recognised in respect of available-for-sale investments		**—**	56,844

	NOTES	2012 HK$'000	2011 HK$'000
Operating cash flows before movements in working capital		**(65,703)**	(83,966)
Decrease in inventories		**—**	28,502
Decrease in trade receivables		**2,104**	38,050
Decrease (increase) in deposits, prepayments and other receivables		**14,455**	(19,356)
(Decrease) increase in trade payables		**(7,923)**	952
(Decrease) increase in other payables and accruals		**(30,545)**	11,664
(Decrease) increase in amount due to a shareholder		**(2,394)**	2,366
Cash used in operations		**(90,006)**	(21,788)
Tax paid for other jurisdictions		**—**	(63)
NET CASH USED IN OPERATING ACTIVITIES		**(90,006)**	(21,851)
INVESTING ACTIVITIES			
Deposits paid to contractors for construction of infrastructure in service concession arrangements		**(16,516)**	(41,160)
Purchase of property, plant and equipment		**(3,993)**	(2,256)
Proceeds on disposal of property, plant and equipment		**272**	24,696
Placement of pledged bank deposits		**—**	3,538
Advance to amount due from an investee		**—**	(4,402)
Advance to an associate		**(20,025)**	—
Repayment from an associate		**2,488**	2,106
Dividend received from an associate		**—**	926
Interest received		**502**	230
Disposal of subsidiaries	39	**11,882**	—
Acquisition of subsidiaries	38	**(45,839)**	—
NET CASH USED IN INVESTING ACTIVITIES		**(71,229)**	(16,322)

	NOTES	2012 HK$'000	2011 HK$'000
FINANCING ACTIVITIES			
Proceeds from issue of ordinary shares		**132,034**	80,809
Repayment of borrowings		**—**	(17,689)
Interest paid		**—**	(3,404)
Share issuance expenses		**(2,414)**	(2,329)
Repayment of obligations under finance leases		**(2)**	(593)
New borrowings raised		**141,791**	—
Issue of convertible bonds		**100,000**	—
NET CASH FROM FINANCING ACTIVITIES		**371,409**	56,794
NET INCREASE IN CASH AND CASH EQUIVALENTS		**210,174**	18,621
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**(1,794)**	1,960
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**54,859**	34,278
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**263,239**	54,859
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		**263,239**	54,859

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

1. GENERAL

The Company was incorporated in Cayman Islands under the Companies Law as an exempted company with limited liability on 27 May 2004 and its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 13 July 2006. The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

The principal activity of the Company and its subsidiaries is waste treatment and waste-to-energy business. The Group was also engaged in the trading of apparel and accessories which was discontinued in 2012 (see Note 13).

The functional currency of the Company is Renminbi ("RMB"), the currency of the primary economic environment in which the principal subsidiaries of the Company operates. As the Company is a listed entity on the Stock Exchange, the consolidated financial statements are presented in Hong Kong dollars ("HK$") for the convenience of the readers.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets, and
Amendments to HKFRS 7	Financial Instruments: Disclosures — Transfers of Financial Assets

The application of the new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and revised HKFRSs issued but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009–2011 Cycle[1]
Amendments to HKFRS 7	Disclosures — Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[2]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[1]
HKFRS 11	Joint Arrangements[1]
HKFRS 12	Disclosure of Interests in Other Entities[1]
HKFRS 13	Fair Value Measurement[1]
HKAS 19 (as revised in 2011)	Employee Benefits[1]
HKAS 27 (as revised in 2011)	Separate Financial Statements[1]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[1]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[4]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[2]
HK(IFRIC) — Int 20	Stripping Costs in the Production Phase of a Surface Mine[1]

1 Effective for annual periods beginning on or after 1 January 2013.
2 Effective for annual periods beginning on or after 1 January 2014.
3 Effective for annual periods beginning on or after 1 January 2015.
4 Effective for annual periods beginning on or after 1 July 2012.

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes requirements for classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

HKFRS 9 required all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The directors anticipated the adoption of HKFRS 9 in the future may not have an impact on the amounts reported in respect of the Group's financial assets and financial liabilities based on the financial instruments as of 31 December 2012.

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements. HK (SIC)-Int 12 *Consolidation — Special Purpose Entities* will be withdrawn upon the effective date of HKFRS 10. Under HKFRS 10, there is only one basis for consolidation, that is, control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time.

These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1 January 2013 with earlier application permitted provided that all of these standards are applied at the same time.

Based on the existing group structure, the application of these five standards is not expected to have a significant impact on the amounts reported in the consolidated financial statement.

HKFRS 13 Fair Value Measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 *Financial Instruments: Disclosures* will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that the application of the new standard may affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 *Presentation of Items of Other Comprehensive Income* introduce new terminology for the statement of comprehensive income. Under the amendments to HKAS 1, a 'statement of comprehensive income' is renamed as a 'statement of profit or loss and other comprehensive income'. In addition, the amendments to HKAS 1 require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis — the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in future accounting periods.

The directors of the Company anticipate that the application of the other new and revised HKFRSs issued but not yet effective will have no material effect on the results and financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognise as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to accumulated losses as specified by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date (see the accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or another measurement basis required by another standard.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata basis base on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from sales of goods is recognised when goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Consultancy fee income and operating income of service concession arrangement are recognised when services are rendered.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Construction contracts

Where the outcome of a construction contract including construction services of the infrastructure under a service concession arrangement can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Property, plant and equipment

Property, plant and equipment including leasehold land and buildings held for use in the production or supply of goods or services, or for administrative purpose are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment less their residual value, over their estimated useful lives, using the straight-line method, at the following rates per annum:

Buildings	Shorter of useful life of 25 years or the lease terms
Leasehold improvement	Shorter of useful life of 5 years or the lease terms
Plant and machinery	9% to 20%
Furniture, fixtures and equipment	10% to 20%
Motor vehicles	10% to 20%

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Leasing

Leases are classified as finance lease whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see the accounting policy below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowing pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss, except when they relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, other receivables, amounts due from grantors for contract work, amounts due from an investee and an associate, and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period (see accounting policy in respect of impairment loss on financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contracts, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance for an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, other receivables, amounts due from an investee and an associate, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When trade receivables, other receivables, amounts due from an investee and an associate, are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Convertible bonds

Convertible bonds issued by the Group that contain both the liability and conversion option components exercisable at the discretion of the holder and early redemption options. Conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Group's own equity instruments is a conversion option derivative. Conversion option derivative and early redemption options are treated as embedded derivatives and are remeasured to fair value at the end of reporting period, with the resulting fair value gains or losses recognised in profit or loss. At the date of issue, both the liability and embedded derivatives components are recognised at fair value using discounted cash flow and Binomial Option Pricing Model, respectively.

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and embedded derivatives in proportion to their relative fair values. Transaction costs relating to the embedded derivatives are charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

Convertible notes containing both a liability and an equity component

Convertible notes issued that contain both the liability and conversion option component are classified separately into respective items on initial recognition in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the gross proceeds of the issue of the convertible notes and the fair value assigned to the liability component, representing the conversion option for the holder to convert the notes into equity, is included in equity (convertible notes equity reserve).

In subsequent periods, the liability component of the convertible notes is carried at amortised cost using the effective interest method. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in convertible notes equity reserve until the embedded option is exercised (in which case the balance stated in convertible notes equity reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible notes equity reserve will be released to the retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible notes using the effective interest method.

Convertible notes containing both a liability component and a conversion option derivative

Convertible notes issued by the Group that contain both a liability and a conversion option component are classified separately into respective items on initial recognition. A conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Group's own equity instruments is a conversion option derivative. At the date of issue, both the liability and conversion option components are recognised at fair value.

In subsequent periods, the liability component of the convertible notes is carried at amortised cost using the effective interest method. The conversion option derivative is measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and conversion option components in proportion to their relative fair values. Transaction costs relating to the conversion option derivative is charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible notes using the effective interest method.

Other financial liabilities

Other financial liabilities including trade payables, other payables, amount due to a shareholder and borrowings are subsequently measured at amortised cost, using the effective interest method.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of obligation under the contract, as determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the revenue recognition policy.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately and are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effective of any changes in estimate being accounted for on a prospective basis (see the accounting policy in respect of impairment losses on tangible and intangible assets below), at the following rate per annum:

Technology know-how	5 to 10 years

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

Service concession arrangements

Consideration received or receivable by the Group for the provision of construction service in a service concession arrangement is recognised at its fair value as a financial asset or an intangible asset, as appropriate.

When the Group has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services and the grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law, it recognises a financial asset under loans and receivables at fair value upon initial recognition. Subsequent to initial recognition, the financial asset is carried at amortised cost using the effective interest method, less any identified impairment losses.

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

The Group has contractual obligations under the service concession arrangements to maintain the infrastructure to a specified level of serviceability, or to restore the infrastructure to a specified condition before it is handed over to the grantor at the end of the service arrangement. These contractual obligations to maintain and restore the infrastructure are measured at the best estimate of the expenditure that would be required to settle the present obligation at the end of the reporting period.

Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Retirement benefit costs

Payments to the defined contributions retirement benefit plans are recognised as expense when employees have rendered service entitling them to the contributions.

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to directors and employees

The fair value of services received determined by reference to the fair value of share options granted at the date of grant is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss, such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

When the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated losses.

4. KEY SOURCE OF ESTIMATION UNCERTAINTY

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Revenue recognition on construction service under service concession arrangements

The Group uses the stage of completion method to account for its revenue and costs relating to the construction service under service concession arrangements where the outcome of a construction contract can be estimated reliably. The stage of completion is measured in accordance with the accounting policy stated in Note 3.

Significant judgment is required in determining the stage of completion, the extent of the construction costs incurred, the estimated total construction revenue and the recoverability of the construction costs. In making the judgment, the Group evaluates by relying on past experience and the work of the project management team. Revenue from construction service under service concession arrangements is disclosed in Note 7. The stage of completion of each construction service under service concession arrangements is assessed on a cumulative basis in each accounting period. Changes in estimate of construction revenue or construction costs, or changes in the estimated outcome of a service concession agreement could impact the amounts of construction revenue and construction costs recognised in the consolidated statement of comprehensive income in the period in which the change is made and in subsequent periods. Such impact could potentially be significant.

Estimated impairment of amounts due from grantors for contract work

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2012, the carrying amount of amounts due from grantors for contract work is approximately HK$392,792,000 (2011: HK$193,581,000).

Estimated impairment of deposits paid for construction of infrastructure in service concession arrangements

As at 31 December 2012, the Group had deposits paid of aggregate carrying amount of approximately HK$155,037,000, net of impairment loss, (31 December 2011: HK$160,062,000) that represent advance payments to a third party supplier, 城市建設研究院 (Urban Construction Design & Research Institute*) ("Urban Construction Institute") for construction of infrastructure in service concession arrangements, which is under arbitration proceedings. For details, it is disclosed in Note 25. An impairment loss on such deposit of approximately HK$6,158,000 (2011: Nil) was recognised in the profit or loss during the year ended 31 December 2012. For the basis of impairment loss, please refer to Note 25.

The arbitration is subject to inherent uncertainties, the final outcome of the arbitration cannot be precisely determined with reasonable certainty. Should the final arbitration result is different from the management's estimate, a significant impact on the Group's financial positions may be resulted.

As at 31 December 2012, the carrying amount of deposits paid for construction of infrastructure in service concession arrangements, other than Urban Construction Institute, is approximately HK$19,944,000 (2011: HK$19,237,000).

Estimated impairment of amount due from an investee

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, additional material impairment loss may arise. As at 31 December 2012, the carrying amount of amount due from an investee is approximately HK$45,267,000 (2011: HK$59,500,000). An impairment loss of HK$14,595,000 (2011: Nil) was recognised in the profit or loss during the year ended 31 December 2012. For the basis of impairment loss, please refer to Note 27.

Estimated impairment of property, plant and equipment

If there is any indication of impairment, determining the extent to which property, plant and equipment are impaired requires an estimation of the value in use of the cash-generating units ("CGUs") to which they have been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. As at 31 December 2012, the carrying amount of property, plant and equipment is approximately HK$15,965,000 (2011: HK$13,522,000).

* *For identification purpose only*

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes borrowings, convertible notes and convertible bonds disclosed in Notes 33, 34 and 35, respectively, net of cash and cash equivalents, and equity attributable to owners of the Company, comprising issued share capital, reserves and accumulated losses.

The directors of the Company review the capital structure on a quarterly basis. As part of this review, the directors consider the cost of capital and the risks associates with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

6. FINANCIAL INSTRUMENTS

6a. Categories of financial instruments

	2012	2011
	HK$'000	*HK$'000*
Financial assets		
Loans and receivables (including cash and cash equivalents)	**731,809**	350,230
Financial liabilities		
Amortised cost	**718,171**	383,090
Embedded derivatives	**54,152**	8,460

6b. Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, other receivables, amounts due from grantors for contract work, amount due from an investee, amount due from an associate, bank balances and cash, trade payables, other payables, amount due to a shareholder, convertible notes, convertible bonds, embedded derivatives, financial guarantee, obligations under finance leases and borrowings. Details of these financial instruments are disclosed in their respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Currency risk

Several subsidiaries of the Company have certain bank balances and cash, borrowings, convertible bonds and convertible notes of the Group are denominated in HK$ and United States Dollars ("USD"), which expose the Group to foreign currency risk. During the year ended 31 December 2012, no sales and costs of sales of the Group are denominated in currencies other than the group entity's functional currencies. During the year ended 31 December 2011, 33% of the sales of the Group are denominated in currencies other than functional currencies of the group entity making the sale, whilst almost 14% of the cost are denominated in currencies other than the group entity's entity's functional currencies.

The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure by closely monitoring the movement of foreign currency rate.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	2012	2011
	HK$'000	*HK$'000*
Assets		
HK$	**238,891**	52,574
Liabilities		
HK$	**533,528**	391,754
USD	**—**	6,177

Sensitivity analysis

The Group is mainly exposed to the fluctuations in HK$ and USD against RMB, which is the functional currency of respective group entities.

The following table details the Group's sensitivity to a 5% (2011: 7%) increase and decrease in HK$ and USD against RMB. 5% (2011: 7%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% (2011: 7%) change in foreign currency rates. A positive number below indicates an increase in loss of the Group where HK$ and USD strengthen 5% (2011: 7%) against RMB. For a 5% (2011: 7%) weakening of HK$ and USD against RMB, there would be an equal and opposite impact on the loss of the Group, and the balances below would be negative.

	HK$		**USD**	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Increase in loss	**14,732**	23,743	**—**	432

In management's opinion, the sensitivity analysis is unrepresentive of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to amount due from an associate, fixed-rate borrowings, convertible notes and convertible bonds (see Notes 28, 33, 34 and 35 for details of these borrowings). The Group currently does not enter into any hedging instruments for fair value interest rate risk.

The Group is exposed to cash flow interest rate risk in relation to bank balances and variable-rate borrowings (see Notes 29 and 33). It is the Group's policy to keep its borrowing at floating rate of interests so as to minimise the fair value interest rate risk. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of bank interest rate arising from the bank balances and PRC benchmark loan rate ("PRC Benchmark Loan Rate") arising from the Group's RMB denominated borrowings.

At 31 December 2012, the Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates arising from the Group's variable-rate borrowings at the end of the reporting period. For these variable-rate borrowings, the analysis is prepared using the liability outstanding at the end of the reporting period. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

At 31 December 2012, if interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's loss for the year would decrease/increase by HK$24,000 (2011: HK$274,000).

Credit risk

As at 31 December 2012, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Group is arising from:

- the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position; and
- the amount of contingent liabilities in relation to financial guarantee issued by the Group as disclosed in Note 44.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is being closely monitored.

The Group has been largely dependent on a small number of customers for a substantial portion of its business. The largest one (2011: two) customers 北京市大興區政府採購中心 (Beijing Da Xing Government Procurement Center*) ("Beijing Da Xing") accounted for 100% (2011: 99.2%) of the Group's trade receivables amounting to approximately HK$7,411,000 as at 31 December 2012 (2011: approximately HK$31,718,000). The Group considers the credit risk is satisfactory as Bejing Da Xing a government authority in the PRC. No impairment losses are recognised on trade receivables for the year ended 31 December 2012 (2011: approximately HK$97,305,000). The failure of any of the customers of the Group to make required payments could have a substantial negative impact on the Group's loss. The Group manages this risk by applying a limit on the credit to these customers.

The Group's concentration of credit risk by geographical locations is mainly in China, which accounted for 100% (2011: 99%) of the total trade receivables as at 31 December 2012.

The Group has concentration of credit risk in amounts due from grantors for contract work of approximately HK$392,792,000 (2011: HK$193,581,000) as at 31 December 2012 representing guaranteed waste treatment fee to be received from four (2011: two) grantors in service concession arrangements of waste treatment and waste-to-energy plants. The Group considers the risk is satisfactory as the grantors are government authorities in the PRC with a high reputation.

The Group's concentration of credit risk also arises from amount due from an investee amounting to approximately HK$45,267,000 as at 31 December 2012 (2011: HK$59,500,000). The Group considers the risk as satisfactory as there is continuing review of the financial position of the investee by the management of the Group. The Group also has concentration of credit risk in deposits paid for construction of infrastructure in service concession arrangements as 89% (2011: 89%) of total deposits was paid to the Group's largest supplier which is subject to arbitration proceedings at the end of the reporting period as detailed in Note 25. The estimated recoverable amount of the deposits of HK$155,037,000 to the largest supplier, net of impairment loss of approximately HK$6,158,000, is based on the best estimate of the management of the allowable expenses incurred by the largest supplier with reference to the legal opinion provided by the independent lawyer. The Group considers that the credit risk on the deposit paid after impairment provided is limit as the largest supplier is reputable in construction industry in the PRC. The directors, the associates and the shareholders has no interest in the largest supplier mentioned above.

The credit risk of amount due from an associate is limited because it is operating a profit generating waste-to-energy plant with guarantee income from government authority in PRC.

The credit risk of advance to suppliers is limited because the suppliers are reputable in the industry.

The credit risk on bank balances is limited because the counterparties are reputable banks in the PRC and Hong Kong.

Liquidity risk

The Company has net current assets of approximately HK$23,742,000 (2011: net current liabilities of approximately HK$175,627,000). The Company is exposed to liability risk if it is not able to raise sufficient funds to meet its obligations. In the management of liquidity risk, the Company obtains financial support from its shareholders and maintains a level of bank balances deemed adequate by the management to finance the Company's operation and mitigate the effects of fluctuation of cash flows.

In preparing the consolidated financial statements, the directors of the Company have assessed the liquidity position and going concern of the Group in light of the fact that the Group incurred a loss of approximately HK$147,825,000 for the year ended 31 December 2012 and had capital commitment of approximately HK$518,426,000 (see Note 42) and other commitment of approximately HK$456,300,000 (see Note 43) as at 31 December 2012. The directors of the Company are satisfied that the Group will have sufficient financial resources to meet its financial obligations including the capital commitment and other commitment as disclosed in Notes 42 and 43 respectively as they fall due in the foreseeable future for the following reasons:

A substantial shareholder, Beijing Capital (Hong Kong) Limited (" Beijing Capital HK"), a wholly owned subsidiary of a listed company in the People Republic of China ("PRC"), Beijing Capital Co., Ltd. ("Beijing Capital"), has granted the Group a three-year term facility of RMB300,000,000 (approximately HK$373,134,000) in December 2011, from which RMB203,000,000 (approximately HK$252,487,000) has not yet been drawn down at the end of the reporting period.

In August 2011, a bank in the PRC has granted a subsidiary of the Company a facility of RMB305,000,000 (approximately HK$379,353,000) solely for one of the service concession arrangement projects which was secured by the underlying assets of the service concession arrangements of that subsidiary and guaranteed by the Company and a subsidiary of the Company. The facility has not yet been drawn down at the end of the reporting period.

Accordingly, the Company is able to raise sufficient funds to meet its obligations.

Liquidity and interest risk tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest dates on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

	Weighted average interest rate	Repayable on demand	Less than 3 months	3 months to 1 year	1 to 2 years	2 to 5 years	More than 5 years	Total undiscounted cash flows	Carrying amount
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2012									
Trade and other payables	—	**49,080**	—	—	—	—	—	**49,080**	**49,080**
Convertible notes *(Note)*	—	—	—	—	**193,000**	—	—	**193,000**	**150,400**
Convertible bonds including embedded derivatives *(Note)*	**6.72%**	—	—	—	—	**307,636**	—	**307,636**	**306,352**
Financial guarantee contract	—	**18,148**	—	—	—	—	—	**18,148**	—
Borrowings									
— Fixed rate	**6.13%**	—	—	**19,832**	**194,040**	—	—	**213,872**	**191,554**
— variable rate	**7.56%**	—	—	**9,795**	**10,526**	**33,951**	**42,448**	**96,720**	**74,937**
		67,228	—	**29,627**	**397,566**	**341,587**	**42,448**	**878,456**	**772,323**
2011									
Trade and other payables	—	30,379	9,601	1,071	—	—	—	41,051	41,051
Amount due to a shareholder	—	2,366	—	—	—	—	—	2,366	2,366
Convertible notes *(Note)*	—	—	—	—	—	193,000	—	193,000	132,279
Convertible bonds including embedded derivatives *(Note)*	10%	—	—	—	—	207,636	—	207,636	163,543
Obligations under finance leases	3.2%	—	4	14	45	—	—	63	61
Financial guarantee contract	—	22,716	—	—	—	—	—	22,716	—
Borrowings — Fixed rate	4%	—	—	54,340	—	—	—	54,340	52,250
		55,461	9,605	55,425	45	400,636	—	521,172	391,550

Note: The undiscounted cash flow above represents redemption amount at maturity date repayable to the holders of convertible bonds and convertible notes based on the contractual terms on the assumption that there is no conversion prior to maturity date.

The amount included above for a financial guarantee contract as disclosed in Note 44 is the maximum amount the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

6c. Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis;
- the fair value of embedded derivatives is measured using the binomial model.

Except as detailed in the following table, the directors consider that the carrying amounts of the Group's financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

	2012		2011	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Financial liabilities				
Liability component of convertible bonds	**252,200**	**245,912**	155,083	171,213
Liability component of convertible notes	**150,400**	**140,842**	132,279	137,264

The discount rate used for the fair value calculation of the convertible bonds and convertible notes are as follow:

	31 December 2012	31 December 2011
Convertible Bonds I as described in Note 35	**17.56%**	12.38%
Convertible Bonds II as described in Note 35	**17.56%**	n/a
Convertible Notes I as described in Note 34	**17.56%**	12.26%

Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Level 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 3	
	2012	2011
	HK$'000	*HK$'000*
Convertible bonds		
Embedded derivatives	**54,152**	8,460

There were no financial instrument classified in Level 1 and 2 as at 31 December 2012 and 2011.

Reconciliation of Level 3 fair value measurements

	Embedded derivatives
	HK$'000
At 1 January 2011	11,701
Gain on fair value change recognised in profit or loss	(3,241)
At 31 December 2011	8,460
Issue of Convertible Bonds II as describe in Note 35	29,208
Loss on fair value change recognised in profit or loss	16,484
At 31 December 2012	54,152

All of the fair value gain relates to embedded derivatives held at the end of the reporting period.

* *For identification purpose only*

7. REVENUE

An analysis of the Group's revenue for the year from continuing operations is as follows:

	2012	2011
	HK$'000	*HK$'000*
		(restated)
Continuing operations		
Provision of construction services under service concession arrangements	**16,004**	19,857
Provision of operation services under service concession arrangements	**1,431**	—
Consultancy fee income	**174**	290
	17,609	20,147

8. SEGMENT INFORMATION

After the disposal of trading of apparel and accessories business during the current year as disclosed in Note 13, the Group has been operating with one reportable and operating segment only, being the waste treatment and waste-to-energy business.

Trading of apparel and accessories business was presented as reportable and operating segment in the prior period. The trading of apparel and accessories business is considered as discontinued operations in the current year and therefore, not included in the segment information. The prior period figures have been re-presented. Since there is only one reportable and operating segment, no segment information except for entity-wide disclosure is provided.

The revenue of services is set out in Note 7.

Geographical information

The Group's operations are principally located in the PRC (country of domicile) excluding Hong Kong.

The Group's revenue from continuing operations from external customers by geographical location of the customers and information about its non-current assets by geographical location of the assets are detailed below:

	Revenue from external customers		**Non-current assets**	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
		(restated)		
Continuing operations				
The PRC (country of domicile)	**17,609**	20,147	**296,846**	291,397
Hong Kong	**—**	—	**526**	702
	17,609	20,147	**297,372**	292,099

Note: Non-current assets excluded those relating to the discontinued operations and financial instruments.

Information about major customers

During the year ended 31 December 2012, revenue from government authorities contributing over 99% (2011: 99%) of the total revenue of the Group in continuing operations amounted to approximately HK$17,435,000 (2011: HK$19,857,000) is attributable to the reportable segment of waste treatment and waste-to-energy business.

9. OTHER INCOME, GAINS AND LOSSES

	2012	2011
	HK$'000	*HK$'000*
		(restated)
Continuing operations		
Bank interest income	**502**	230
Interest income on amount due from an associate	**1,376**	—
Effective interest income on amount due from an investee	—	4,726
Effective interest income on amounts due from for grantors contract work	**12,177**	11,478
Total interest income	**14,055**	16,434
Gain on disposal of property, plant and equipment	**5**	6,718
Impairment loss recognised in respect of deposits, prepayments and other receivables *(Note 26(b))*	**(10,837)**	(23,314)
Impairment loss recognised in respect of deposits paid for construction of infrastructure in service concession arrangements *(Note 25)*	**(6,158)**	—
Impairment loss recognised in respect of available-for-sales investment *(Note 23)*	—	(56,844)
Impairment loss recognised in respect of amount due from an investee *(Note 27)*	**(14,595)**	—
Provision for penalty charges in relation to construction of waste-to-energy plant *(Note 22)*	**(11,207)**	(27,410)
Gain on redemption of promissory notes by issue of ordinary shares of the Company	—	15,564
Sundry income	**1,169**	10
	(27,568)	(68,842)

10. FINANCE COSTS

	2012	2011
	HK$'000	*HK$'000*
		(restated)
Continuing operations		
Interest on:		
Borrowings and overdrafts wholly repayable within five years	**6,393**	3,391
Convertible bonds	**26,325**	21,216
Convertible notes	**18,121**	24,712
Promissory notes	—	10,894
	50,839	60,213

11. LOSS BEFORE TAX

	2012	2011
	HK$'000	*HK$'000*
		(restated)
Loss before tax has been arrived at after charging (crediting):		
Continuing operations		
Directors' and chief executives' emoluments *(Note 14)*	**5,986**	5,593
Staff costs (excluding directors)		
— other staff costs	**18,011**	12,996
— retirement benefit scheme contribution	**3,038**	2,573
	21,049	15,569
Auditors' remuneration	**3,785**	3,604
Contract cost recognised for waste treatment business (included in cost of sales)	**16,004**	19,857
Depreciation of property, plant and equipment	**2,124**	2,216
Amortisation of prepaid lease payments	**52**	52
Amortisation of intangible assets (included in administrative expenses)	**1,468**	1,468
Net exchange (gain) loss	**(1,547)**	1,146
Provision for expected losses in relation to service concession arrangements (included in cost of sales) *(Note 22)*	**—**	35,287

12. INCOME TAX CREDIT

	2012	2011
	HK$'000	*HK$'000*
		(restated)
Continuing operations		
Current income tax:		
Other jurisdictions	**—**	42
Deferred tax *(Note 36)*	**(2,869)**	(3,956)
	(2,869)	(3,914)

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

Taxation arising in other jurisdiction is calculated at the rates prevailing in the relevant jurisdiction.

The tax credit for the year can be reconciled to the loss before tax per the consolidated statement of comprehensive income as follows:

	2012	2011
	HK$'000	*HK$'000*
		(restated)
Loss before tax (from continuing operations)	**(155,546)**	(187,757)
Tax at the domestic income tax rate of 25%	**(38,887)**	(46,939)
Tax effect of expenses not deductible for tax purpose	**21,752**	30,024
Tax effect of income not taxable for tax purpose	**(3,421)**	(11,329)
Tax effect of share of profit of an associate	**(1,969)**	(2,840)
Tax effect of tax losses not recognised	**11,758**	21,277
Tax effect of other deductible temporary differences not recognised	**7,898**	5,829
Others	**—**	64
Income tax credit for the year (from continuing operations)	**(2,869)**	(3,914)

Details of deferred taxation are disclosed in Note 36.

13. DISCONTINUED OPERATIONS

As mentioned in Note 39 to the consolidated financial statements, the Group disposed of its wholly-owned subsidiary, Hembly Garment Manufacturing Limited ("Hembly Garment"), and its subsidiary, 恆華（南京）服飾有限公司 (Heng Hua (Nanjing) Apparel Co., Ltd.*) ("Heng Hua"), for a cash consideration of approximately HK$12,000,000, to an independent third party on 22 February 2012. Details of the disposal agreement are set out in the Company's announcement dated on 2 December 2011. The trading of apparel and accessories operation is treated as discontinued operations. Comparative information in the consolidated statement of comprehensive income has been re-presented. The details of the disposal and the net assets being disposed of are detailed in Note 39.

The profit (loss) from the discontinued operations from 1 January 2012 to 22 February 2012 and for the year ended 31 December 2011 were as follows:

	2012	2011
	HK$'000	*HK$'000*
		(restated)
Profit (loss) for the period/year from discontinued operations	**285**	(163,290)
Gain on disposal of discontinued operations *(see Note 39)*	**4,567**	—
	4,852	(163,290)

The results of the Group's trading of apparel and accessories operation from 1 January 2012 to 22 February 2012 and for the year ended 31 December 2011 were as follows:

	2012	2011
	HK$'000	*HK$'000*
		(restated)
Revenue	—	28,854
Cost of sales	—	(56,832)
Gross loss	—	(27,978)
Other income, gains and losses	**968**	(120,658)
Distribution and selling expenses	—	(19)
Administrative expenses	**(683)**	(14,622)
Finance costs	—	(13)
Profit (loss) for the period/year from discontinued operations	**285**	(163,290)

Profit (loss) for the period/year from discontinued operations include the following:

	2012	2011
	HK$'000	*HK$'000*
		(restated)
Interest on obligations under finance leases	—	13
Staff costs		
— other staff costs	**335**	5,325
— retirement benefit scheme contribution excluding directors	**11**	138
	346	5,463
Auditor's remuneration	—	960
Cost of inventories recognised as an expense	—	56,832
Depreciation of property, plant and equipment	**128**	1,546
Allowance for inventories	—	13,897
(Reversal of impairment loss) impairment loss recognised on trade receivables	**(853)**	94,046
Impairment loss recognised on other receivables	—	26,115
Loss on disposal of property, plant and equipment	—	498
Net exchange gain	—	(9,772)

Cash flows from discontinued operations

	2012	2011
	HK$'000	*HK$'000*
Net cash outflows from operating activities	**(2)**	(2,808)
Net cash outflow from investing activities	—	(139)
Net cash outflows from financing activities	**(16)**	(529)
Effect of foreign exchange rate changes	—	3,391
Net cash outflows	**(18)**	(85)

* *For identification purpose only*

14. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

	Executive Directors						Independent Non-Executive Directors						Non-Executive Director	
	Marcello Appella	Yu Chang Jian	Liu Xiao Guang	Cao Guo Xian	Tang Zhi Bin	Xue Hui Xuan	Lo Ming Chi, Charles	Pao Ping Wing	Cheng Kai Tai, Allen	Kwan Hung Sang, Francis	Li Bao Chun	Chen Yee Wah	Lim Jui Kian	Total 2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
						(note g)	*(note f)*			*(note e)*	*(note g)*	*(note g)*		
2012														
Fee	—	—	—	—	—	195	108	216	200	68	—	108	200	1,095
Other emoluments														
Salaries and other benefits	212	2,339	390	1,950	—	—	—	—	—	—	—	—	—	4,891
Contribution to retirement benefit schemes	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Total emoluments	212	2,339	390	1,950	—	195	108	216	200	68	—	108	200	5,986

	Executive Directors					Independent Non-Executive Directors				Non-Executive Directors					
	Marcello Appella	Yu Chang Jian	Liu Xiao Guang	Cao Guo Xian	Tang Zhi Bin	Chan Tak Yan	Lo Ming Chi, Charles	Pao Ping Wing	Cheng Kai Tai, Allen	Kwan Hung Sang, Francis	Ngok Yan Yu	Lim Jui Kian	Ng Cheuk Fan, Keith	Yu Sau Lai	Total 2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(note b)	*(note b)*	*(note c)*	*(note b)*	*(note d)*					*(note a)*		*(note a)*	*(note a)*	
2011															
Fee	—	—	—	—	—	—	216	216	150	216	—	150	146	146	1,240
Other emoluments															
Salaries and other benefits	460	1,397	233	1,067	—	275	—	—	—	—	901	—	—	—	4,333
Contribution to retirement benefit schemes	—	—	—	—	—	6	—	—	—	—	5	—	5	4	20
Total emoluments	460	1,397	233	1,067	—	281	216	216	150	216	906	150	151	150	5,593

Notes:

(a) Resigned on 27 May 2011.

(b) Appointed on 27 May 2011.

(c) Appointed on 4 July 2011.

(d) Resigned on 30 June 2011.

(e) Resigned on 25 April 2012

(f) Resigned on 1 July 2012.

(g) Appointed on 1 July 2012.

Neither the chief executive nor any of the directors waived any emoluments in the year ended 31 December 2012 and 2011. No emoluments have been paid to the directors as an inducement to join or upon joining the Group, or as compensation for loss of office.

15. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2011: three) were directors of the Company whose emoluments are included in Note 14. The emoluments of the remaining three (2011: two) individuals were as follows:

	2012	2011
	HK$'000	*HK$'000*
Salaries and other benefits	**2,860**	1,022
Retirement benefits scheme contributions	—	12
	2,860	1,034

Their emoluments are within the following bands:

	2012 Number of employees	2011 Number of employees
Nil to HK$1,000,000	**3**	2

No employees waived or agreed to waive any emoluments for the years ended 31 December 2012 and 2011. No emoluments have been paid to the employees as an inducement to join or upon joining the Group, or as compensation for loss of office.

16. DIVIDENDS

No dividend was paid, or proposed during 2012, nor has any dividend been proposed since the end of the reporting period (2011: Nil).

17. LOSS PER SHARE

For continuing and discontinued operations

The calculation of the basic and diluted loss per share attributable to the owners of the Company is based on the following data:

	2012	2011
	HK$'000	*HK$'000* (restated)
Loss		
Loss for the year attributable to owners of the Company for the purposes of basic and diluted loss per share	**(147,054)**	(325,504)

	2012 *'000* *(Note)*	2011 *'000* *(Note)*
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	**1,636,580**	1,255,740

Note: The computation of diluted loss per share for both years does not assume the exercise of outstanding share options of the Company and the conversion of the outstanding convertible bonds and convertible notes of the Company since their assumed exercise would result in a decrease in loss per share.

From continuing operations

The calculation of the basic and diluted loss per share from continuing operations attributable to the owners of the Company is based on the following data:

Earnings figures are calculated as follows:

	2012 *HK$'000*	2011 *HK$'000*
Loss for the year attributable to owners of the Company	**(147,054)**	(325,504)
Add: (Profit) loss for the year from discontinued operations	**(4,852)**	163,290
Loss for the purposes of basic and diluted loss per share from continuing operations	**(151,906)**	(162,214)

The denominators used are the same as those detailed above for both basic and diluted loss per share.

From discontinued operations

Basic and diluted earnings per share from discontinued operation is HK0.29 cents per share (2011: Basic and diluted loss per share from discontinued operation was HK13.00 cents per share) for the year ended 31 December 2012, based on the profit for the year from the discontinued operation of approximately HK$4,852,000 (2011: loss for the year from discontinued operation of HK$163,290,000) and the denominators detailed above for both basic and diluted loss per share.

18. PROPERTY, PLANT AND EQUIPMENT

	Buildings *HK$'000*	Leasehold improvement *HK$'000*	Plant and machinery *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
COST						
At 1 January 2011	26,736	7,792	1,467	9,907	5,714	51,616
Exchange realignment	887	148	—	155	164	1,354
Additions	—	2,222	—	34	—	2,256
Disposals	(18,046)	(6,241)	(1,467)	(253)	(652)	(26,659)
At 31 December 2011	9,577	3,921	—	9,843	5,226	28,567
Exchange realignment	84	31	—	28	27	170
Additions	—	1,236	—	1,359	1,398	3,993
Acquired on acquisition of subsidiaries *(Note 38)*	—	—	681	44	491	1,216
Disposals	—	—	—	(39)	(311)	(350)
Disposal of subsidiaries *(Note 39)*	—	—	—	(5,788)	(4,956)	(10,744)
At 31 December 2012	9,661	5,188	681	5,447	1,875	22,852
DEPRECIATION						
At 1 January 2011	1,287	4,483	1,467	7,829	3,940	19,006
Exchange realignment	112	95	—	120	133	460
Provided for the year	708	926	—	1,208	920	3,762
Eliminated on disposals	(1,731)	(4,284)	(1,467)	(211)	(490)	(8,183)
At 31 December 2011	376	1,220	—	8,946	4,503	15,045
Exchange realignment	19	22	—	26	24	91
Provided for the year	403	1,103	28	453	265	2,252
Eliminated on disposals	—	—	—	(13)	(70)	(83)
Eliminated on disposal of subsidiaries *(Note 39)*	—	—	—	(5,788)	(4,630)	(10,418)
At 31 December 2012	798	2,345	28	3,624	92	6,887
CARRYING VALUES						
At 31 December 2012	8,863	2,843	653	1,823	1,783	15,965
At 31 December 2011	9,201	2,701	—	897	723	13,522

The Group's buildings are situated in the PRC under medium term lease.

The carrying values of furniture, fixtures and equipment as at 31 December 2011 included an amount of approximately HK$59,000 in respect of assets held under finance leases.

19. INTANGIBLE ASSETS

	Technology know-how
	HK$'000
COST	
At 1 January 2011, 31 December 2011 and 31 December 2012	6,848
AMORTISATION AND IMPAIRMENT	
At 1 January 2011	1,594
Provided for the year	1,468
At 31 December 2011	3,062
Provided for the year	1,468
At 31 December 2012	4,530
CARRYING VALUES	
At 31 December 2012	2,318
At 31 December 2011	3,786

The above intangible assets in relation to license agreements entered into with independent third parties who granted the Group the right to use anaerobic digestion technology in the Group's waste treatment and waste-to-energy business in the PRC have finite useful lives. Such intangible assets are amortised on a straight-line basis.

20. GOODWILL

	HK$'000
COST	
At 1 January 2011, December 2011 and 31 December 2012	1,068,010
IMPAIRMENT	
At 1 January 2011, 31 December 2011 and 31 December 2012	1,068,010
CARRYING VALUES	
At 31 December 2011 and 2012	—

21. PREPAID LEASE PAYMENTS

	2012	2011
	HK$'000	*HK$'000*
Analysed for reporting purposes as:		
Current asset	**52**	52
Non-current asset	**2,277**	2,314
	2,329	2,366

The Group's prepaid lease payments comprise:

Medium-term leasehold land in the PRC	**2,329**	2,366

The amounts represent land use rights located in the PRC and are released to profit or loss over the term of the relevant rights of 50 years.

22. AMOUNTS DUE FROM GRANTORS FOR CONTRACT WORK

	2012	2011
	HK$'000	*HK$'000*
Analysed for reporting purpose as:		
Current asset	**9,453**	—
Non-current asset	**383,339**	193,581
	392,792	193,581

Amounts due from grantors for contract work represent a) costs incurred by the Group for the construction and operation services rendered under service concession arrangements of waste treatment and waste-to-energy plant in the PRC on a build-operate-transfer ("BOT") basis, plus attributable profits on the services provided; b) arising from acquisition of subsidiaries during the year (see Note 38). Revenues and costs relating to the construction phase of the contract are accounted for in accordance with HKAS 11. Revenue and costs relating to the operating phase of the contract are accounted for in accordance with HKAS 18.

Several subsidiaries of the Company entered into service concession arrangements with certain government authorities in the PRC ("Grantors") in respect of their waste treatment and waste-to-energy businesses. These subsidiaries acted as operators in these service concession arrangements to construct waste treatment and waste-to-energy plants on a BOT basis, and to operate and maintain the waste treatment and waste-to-energy plants at a specified level of serviceability on behalf of the relevant government authorities over the relevant service concession periods. The effective interest rates ranged from 3.6% to 4.3% during the year ended 31 December 2012 and 2011.

As at 31 December 2012, the Group had four (2011: two) service concession arrangements in the PRC and the major terms of each service concession arrangements are set out as follows:

Name of subsidiary as operator	Name of waste treatment and waste-to-energy plant	Location	Name of grantor	Service concession period	Practical processing per day: Waste treatment	Practical processing per day: Electricity generation	Status	2012 *HK$'000*	2011 *HK$'000*
北京市一清百瑪士綠色能源有限公司 (Beijing Yiqing Biomax Green Energy Park Co., Ltd.*) ("BJ Yiqing Biomax")	北京市董村分類綜合處理廠 (Beijing Dongcun, Sorting Comprehensive Treatment Plant*) ("Beijing Plant")	Dongcun, Beijing	北京市市政管理委員會 (Beijing Municipal Administration Committee*)	December 2008 to December 2034 (27 years)	650 tonnes	36 million kWh	Under construction with delay	**166,754**	148,145
南昌百瑪士綠色能源有限公司 (Nanchang Biomax Green Energy Co., Ltd*) ("NC Biomax GE")	南昌市垃圾焚燒發電廠 (Nanchang Solid Waste Incineration Power Generation Plant*)	Quanling, Nanchang	南昌市市環境管理局 (Nanchang City Environment Administration Bureau*)	27 years after obtaining the approval for commercial operation *(Note 2)*	1,200 tonnes	131 million kWh	Under construction	**55,692**	45,436
都勻市科林環保有限公司 (Duyun Kelin Environmental Company Limited*) ("Duyun Kelin") *(Note 1)*	都勻市生活垃圾填埋場 (Duyun Municipal Solid Waste Landfill Site*)	Duyun, Guizhou	都勻市人民政府 (Duyun People's Government*)	June 2012 to June 2042 (30 years)	300 tonnes	n/a	Operating	**130,366**	—
甕安縣科林環保有限公司 (Weng'an Kelin Environmental Company Limited*) ("Weng'an Kelin") *(Note 1)*	甕安縣生活垃圾填埋場 (Weng'an Municipal Solid Waste Landfill Site*)	Weng'an, Guizhou	甕安縣人民政府 (Weng'an People's Government*)	30 years after obtaining the approval for commercial operation *(Note 2)*	150 tonnes	n/a	Trial run before commercial operation	**39,980**	—

Note 1: The subsidiaries were acquired during the year ended 31 December 2012 as detailed in Note 38.

Note 2: The subsidiaries have not yet obtained approval for commercial operation at 31 December 2012.

During the operation phase of the respective service concession periods, the Group will receive guaranteed receipts of waste treatment fee from the grantors calculated by multiplying the minimum level of municipal waste to be processed per day at a pre-determined waste treatment fee per tonne as specified in all service concession agreements. In addition, for two service concession arrangements (as mentioned above), the Group has the right to charge on-grid electricity tariff from users after commencement of operation phase of the waste-to-energy plants. The directors of the Company considers that the possibility of exceeding the threshold (minimum level of municipal waste to be processed per day) of these projects is remote at this stage and hence no intangible assets are recognised.

The Group recognised revenue from construction services of approximately HK$16,004,000 (2011: HK$19,857,000) by reference to the stage of completion of the construction work and revenue from operation services of approximately HK$1,431,000 (2011: Nil).

Provision for penalty charges to profit or loss of approximately HK$11,207,000 (2011: HK$27,410,000) was recognised for the year ended 31 December 2012. Provision for penalty charge is based on penalty clause stated in the service concession agreement of Beijing Plant at RMB350,000 per week starting from the original commencement date of operation in January 2009. Movement of the provision for penalty charges is detailed in Note 30(c).

Provision for future loss in construction services is based on the difference between revenue and budgeted cost to be generated and incurred respectively from the commencement date of construction to the completion of construction of the Beijing Plant. No provision for the expected loss of the construction services was recognised for the year ended 31 December 2012 (2011: HK$35,287,000). Movement of the provision for future loss in construction services is detailed in Note 30(c).

During the year ended 31 December 2012, the Group is still under negotiation with the local government to extend the service concession period and increase the waste treatment fee of Beijing Plant. As at 31 December 2012, the local government preliminarily agreed to revisit the service concession period and the waste treatment fee. However, the outcome of the negotiation with the local government for the revised terms is uncertain as at 31 December 2012.

Pursuant to the service concession agreements, the Group is required to surrender these waste treatment and waste-to-energy plants to the grantors at a specified level of serviceability at the end of the respective service concession periods. As at 31 December 2012, provision of HK$995,000 (2011: Nil) has been recognised in respect of the contractual obligations to maintain or restore these waste treatment and waste-to-energy plants to specified conditions.

* *For identification purpose only*

23. AVAILABLE-FOR-SALE INVESTMENT

	2012	2011
	HK$'000	*HK$'000*
COST		
Unlisted securities		
— Equity securities in the PRC *(Note)*	**34,700**	34,700
— Deemed capital contribution for equity securities in the PRC	**22,144**	22,144
	56,844	56,844
IMPAIRMENT		
At 1 January	**(56,844)**	—
Impairment loss recognised during the year	**—**	(56,844)
At 31 December	**(56,844)**	(56,844)
CARRYING VALUES	**—**	—

Note:

The unlisted equity securities are issued by private entities established in the PRC. They are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

Included in unlisted equity securities in the PRC as at 31 December 2012 and 2011 is the Group's investment in Shanghai Biomax Green Energy Park Company Limited ("SH Biomax GEP") 上海百瑪士綠色能源有限公司, a sino-foreign-owned joint venture enterprise established in the PRC, which was acquired on acquisition of Smartview Investment Holdings Limited ("Smartview") in 2009. SH Biomax GEP operates a waste treatment and waste-to-energy plant in Shanghai, the PRC on a build-own-operate basis. The investment represents 33.8% equity interest of SH Biomax GEP. Such investment is a passive investment as 上海振環實業總公司 (Shanghai Zhen Huan Industrial Corporation*), a major shareholder of SH Biomax GEP with 37% equity interest has the right to appoint all the directors to govern the financial and operating policies of SH Biomax GEP. In addition, the Group has surrendered all its voting rights in shareholders' meetings of SH Biomax GEP to the major shareholder under a contractual arrangement with the major shareholder. Accordingly, the directors of the Company considered that the Group has no significant influence over the financial and operating policy decision in SH Biomax GEP and hence the investment is accounted for as available-for-sale investment rather than as an associate.

As at 31 December 2011, the directors of the Company considered the investment cost is irrecoverable (see Note 27 for the basis of determination), hence impairment loss of investment cost comprising of equity owned by the Group and deemed capital contribution amounting to HK$34,700,000 and HK$22,144,000 were recognised respectively.

* *For identification purpose only*

24. INTEREST IN AN ASSOCIATE

	2012	2011
	HK$'000	*HK$'000*
Cost of investment in an associate		
— Unlisted	**75,021**	75,021
Share of post-acquisition profits, net of dividend received	**19,981**	12,107
Share of other comprehensive income	**6,829**	6,050
	101,831	93,178

At 31 December 2012, the Group held approximately 46% (2011: 46%) equity interest in 深圳粵能環保再生能源有限公司 ("SZ Yueneng"), a company established in the PRC. SZ Yueneng operates a waste treatment and waste-to-energy plant in Shenzhen, the PRC on a BOT basis.

The summarised financial information in respect of the Group's unlisted associate is set out below:

	2012	2011
	HK$'000	*HK$'000*
Total assets	**426,315**	432,226
Total liabilities	**(204,943)**	(229,665)
Net assets	**221,372**	202,561
Group's share of net assets of an associate	**101,831**	93,178
Total revenue	**63,299**	70,405
Total profit for the year	**17,118**	24,691
Group's share of profit of an associate for the year	**7,874**	11,358

25. DEPOSITS PAID FOR CONSTRUCTION OF INFRASTRUCTURE IN SERVICE CONCESSION ARRANGEMENTS

The amount represents advance payments to third party suppliers for purchase of materials and equipment, which have not yet been delivered to the Group at the end of the reporting period, for the construction of waste treatment and waste-to-energy plants in the PRC under service concession arrangements. Included in the deposits paid balance is advance payment to a third party supplier, Urban Construction Institute, with aggregate carrying amount of approximately HK$155,037,000 (31 December 2011: HK$160,062,000) which is subject to arbitration proceedings as at the end of the reporting period. The Group has submitted a dispute with Urban Construction Institute to an arbitration committee, 南昌仲裁委員會 (Nanchang Arbitration Committee*), during the year ended 31 December 2012. Subsequent to the end of the reporting period, the Arbitration Committee issued the first order which determined that the contract entered into between the Group and Urban Construction Institute was invalid. In accordance with the legal opinion provided by a firm of independent lawyers not connected to the Group, the amount should be refunded to the Group taking into account the outcome of the first order. However, the refundable amount is yet to be finalised by the arbitration. The estimated recoverable amount of the deposits of HK$155,037,000, net of allowable expenses incurred by Urban Construction Institute of approximately HK$6,158,000 (2011: Nil), is expected to be recovered by the director of the Company, taking into account the legal opinion provided by the independent lawyer.

* *For identification purpose only*

26. TRADE RECEIVABLES AND DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2012	2011
	HK$'000	*HK$'000*
Trade receivables *(Note a)*	**8,452**	132,901
Less: allowance for doubtful debts	**(1,041)**	(100,915)
	7,411	31,986
Deposits, prepayments and other receivables		
Advances to suppliers *(Note b)*	**25,877**	34,072
Prepaid profit tax	**1,502**	1,502
Prepaid professional fee	—	6,520
Others	**4,888**	5,970
	32,267	48,064

(a) Trade receivables

The Group allows an average credit period normally 90 days to its trade customers for both years.

The following is an aged analysis of trade receivables (net of allowance for doubtful debts) presented based on the invoice date at the end of reporting period is as follows.

	2012	2011
	HK$'000	*HK$'000*
0–90 days	—	24,630
Over 360 days	**7,411**	7,356
	7,411	31,986

Before accepting any new customer, the Group assesses the potential customer's credit quality by respective sales team and defines credit limits by customer.

Included in the Group's trade receivable balance is a debtor, Beijing Da Xing, with aggregate carrying amount of approximately HK$7,411,000 (2011: HK$7,356,000) which is past due as at the end of the reporting period for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and the amount is still considered recoverable. The Group does not hold any collateral over these balances.

Aging of trade receivables which are past due but not impaired

	2012	2011
	HK$'000	*HK$'000*
Overdue by:		
Over 360 days	**7,411**	7,356

Movement in the allowance for doubtful debts

	2012	2011
	HK$'000	*HK$'000*
Balance at beginning of the year	**100,915**	5,358
Exchange realignment	**8**	1,511
Impairment losses recognised	**—**	97,305
Impairment losses reversed	**(853)**	(3,259)
Eliminated on disposal of a subsidiaries	**(99,029)**	—
Balance at end of the year	**1,041**	100,915

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of approximately HK$1,041,000 (2011: HK$100,915,000) that are considered irrecoverable by the management after consideration of the credit quality of those individual customers based on the amounts subsequently settled after year end, the ongoing relationship with the Group and the aging of these receivables. The Group does not hold any collateral over these balances. During the year ended 31 December 2011, net impairment losses on trade receivables of HK$94,046,000 is recognised in profit or loss due to adverse change in business environment of the customers, including impairment losses of HK$58,659,000 in respect of trade receivable due from one of the two largest customers of the Group, Sergio Tacchini International S.P.A ("ST"), which is controlled by Mr. Ngok Yan Yu, a substantial shareholder of the Company as at 31 December 2011. The carrying amount of trade receivable of ST was fully impaired during the year ended 31 December 2011. The remaining impairment losses are related to other customers included in the segment of trading of apparel and accessories which was discontinued in 2012.

(b) Advances to suppliers

During the year ended 31 December 2012, a full impairment loss of HK$10,837,000 (2011: HK$10,864,000) was recognised in profit or loss in relation to an advance that has been overdue for more than 360 days and the recovery of such advance is not expected by the directors of the Company taking into account of the financial situation of the supplier.

During the year ended 31 December 2011, another impairment loss of HK$12,450,000 was recognised in profit or loss in relation to irrecoverable advance to other suppliers.

27. AMOUNT DUE FROM AN INVESTEE

	2012	2011
	HK$'000	*HK$'000*
Trade receivable		
SH Biomax GEP *(Note)*	**19,694**	19,548
Other receivable		
SH Biomax GEP *(Note)*	**40,168**	39,952
Less: impairment loss recognised *(Note)*	**(14,595)**	—
	45,267	59,500

Note:

The receivables due from SH Biomax GEP, an available-for-sale investment of the Group, had been past due over 3 years (2011: over 2 years). The other receivable due from SH Biomax GEP is unsecured and interest free. An impairment loss of HK$14,595,000 (2011: Nil) was recognised in the profit and loss during the year ended 31 December 2012.

During the year ended 31 December 2012, the commencement of operation of SH Biomax GEP has been postponed. Therefore, the directors of the Company assessed the future economic benefits to be generated from the project reduced.

At 31 December 2012 and 2011, the directors of the Company assessed the recoverable amount of the receivables due from SH Biomax GEP based on the present value of the estimated future cash flows of SH Biomax GEP determined based on the cash flow projections and financial budgets approved by management. In addition, in ascertaining the recoverable amount, the directors of the Company has also made reference to the fair values of the major assets of SH Biomax GEP which have been determined with reference to a valuation carried out at 30 November 2012 by Grant Sherman Appraisal Limited, a firm of independent and qualified professional valuer not connected to the Group and the liabilities of SH Biomax GEP at 31 December 2012. The valuation was principally based on the cost and market approaches. The directors considered that there is no significant changes in the valuation of the major assets of SH Biomax GEP from 30 November 2012 to 31 December 2012 in accordance to the opinion by the valuer.

At 31 December 2012, the present value of the future cash flows of SH Biomax GEP has been determined based on the cash flow projections and financial budgets approved by management. It consists of cash flows arising from the operation of waste treatment and waste-to-energy plant and discounted at a rate of approximately 18% (2011: 18%) per annum. Cash flows arising from the operation of waste treatment and waste-to-energy plant are budgeted over the respective concession period granted by the service concession agreement. Other key assumptions for the value in use calculation relate to the estimation of cash inflows and outflows which include budgeted sales and budgeted gross margin, which is determined based on past performance and management's expectation for the market development.

In the opinion of the directors, the commencement of operation of the waste treatment plant of SH Biomax GEP is expected to be delayed. The receivables will not be repayable within 12 months (2011: 12 months) from the end of the reporting period until the waste treatment plant of SH Biomax GEP commences its operation. The receivables are measured at amortised cost of HK$45,267,000 (2011: HK$59,500,000) as 31 December 2012.

28. AMOUNT DUE FROM AN ASSOCIATE

During the year ended 31 December 2012, an associate entered into two loan agreements with the Group regarding advances to the associate of RMB5,000,000 (approximately HK$6,219,000) and RMB11,100,000 (approximately HK$13,806,000) which are repayable in January 2013 and June 2013 respectively. The advances are unsecured and carried interest rate of 18% per annum.

At 31 December 2012, the management expected that the advance of RMB5,000,000 (approximately HK$6,219,000) will not be settled within 12 months from the end of the reporting period and classified as non-current asset. Subsequent to the end of the reporting period, an associate entered into a supplemental agreement with the Group for the extension of this advance for another 12 months.

For the remaining amount which will be settled within 12 months from the end of the reporting period and classified as current asset.

The amount at 31 December 2011 was unsecured, interest free and repayable on demand.

29. BANK BALANCES AND CASH

Bank balances, represent saving accounts and deposits, carry interest at market saving rates which range from 0.01% to 0.40% (2011: 0.01% to 0.40%) per annum.

30. TRADE PAYABLES AND OTHER PAYABLES AND ACCRUALS

(a) Trade payables

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	2012	2011
	HK$'000	*HK$'000*
0–90 days	**295**	9,601
91–180 days	**41**	—
181–360 days	**616**	150
Over 360 days	**22,911**	22,207
	23,863	31,958

The average credit period on purchases of goods ranges from 30 to 90 days unless for those over 360 days which are based on agreed contract terms. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

(b) Other payables and accruals

The amounts mainly represented accrued interest of approximately HK$6,393,000 (2011: nil), accrued professional fee of approximately HK$5,112,000 (2011: approximately HK$6,417,000), business tax payable of approximately HK$5,273,000 (2011: approximately HK$4,155,000), no value-added taxes payable (2011: HK$6,171,000) and consideration payable of approximately HK$11,082,000 (2011: Nil)

(c) Provisions

	Expected loss relating to service concession arrangements	**Provision for penalty charges**	**Provision for maintenance**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2011	53,025	57,291	—	110,316
Additions	35,287	27,410	—	62,697
Exchange realignment	1,109	5,176	—	6,285
At 31 December 2011	89,421	89,877	—	179,298
Additions	—	11,207	995	12,202
Exchange realignment	667	802	—	1,469
At 31 December 2012	90,088	101,886	995	192,969

Provision for expected losses in relation to service concession arrangements of approximately HK$90,088,000 (see Note 22 for the basis of determination) (2011: approximately HK$89,421,000) and provision for penalty charges in relation to construction of waste-to-energy plant of approximately HK$101,886,000 (see Note 22) (2011: HK$89,877,000) to the grantor arising from the delay of commencement of operation of a waste treatment and waste-to-energy plant pursuant to the service concession agreements at RMB350,000 per week starting from the original commencement date of operation in January 2009. The directors of the Company consider the penalty charges will be payable in accordance with the contractual terms when the operation of the waste-to-energy plant commenced. The directors of the Company estimated the operation of waste-to-energy plant will be commenced on 30 June 2013. As at 31 December 2012, provision of HK$995,000 (2011: Nil) has been recognised in respect of the contractual obligations to maintain or restore these waste treatment and waste-to-energy plants to specified conditions.

31. AMOUNT DUE TO A SHAREHOLDER

The amount was due to Mr. Ngok Yan Yu, a substantial shareholder of the Company as at 31 December 2011 and fully repaid in 2012. The amount was unsecured, interest free and repayable on demand.

32. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		**Present value of minimum lease payments**	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts payable under finance leases:				
Within one year	—	18	—	17
More than one year, but not exceeding two years	—	45	—	44
	—	63	—	61
Less: Future finance charges	—	(2)	—	—
Present value of lease obligations	—	61	—	61
Less: Amounts due for settlement within one year shown under current liabilities			—	(17)
Amounts due for settlement after one year			—	44

It is the Group's policy to lease certain of its motor vehicles and furniture, fixtures and equipment under finance leases. The average lease term is 5 years. For the year ended 31 December 2011, the average effective borrowing rates were 3.2%. Interest rates are fixed at the contract dates. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Group's obligations under finance leases are secured by the lessor's title to the leased assets.

The obligation under finance leases included in the segment of trading of apparel and accessories are derecognised when the segment of trading of apparel and accessories was discontinued in 2012.

33. BORROWINGS

	2012	2011
	HK$'000	*HK$'000*
Bank loans	**72,450**	—
Other loans *(Note)*	**194,041**	52,250
Borrowings	**266,491**	52,250
Secured loan	**193,096**	—
Unsecured loan	**73,395**	52,250
	266,491	52,250

Note: Included in other loans, amounting to HK$172,896,000 (2011: HK$52,250,000), are loans advanced from related parties.

During the year ended 31 December 2012, the Group entered into three fixed-rate loan agreements ("Original Loan Agreements") with Beijing Capital of HK$49,751,000, HK$26,119,000 and HK$44,776,000 that will be due in December 2012, August 2013 and August 2013 respectively. The balance is unsecured and carries interest at fixed rate of 7.2%, 6.9% and 6.9% per annum respectively. In November 2012, the Group entered into three supplementary loan agreements ("Supplementary Loan Agreements") which were approved by the independent shareholders in December 2012 (i) to extend the respective term of the Original Loan Agreements for another 24 months and, (ii) the loans under the Original Loan Agreements are secured by the entire equity interest of a subsidiary held by the Group.

During the year ended 31 December 2011, the Group and Simple Success Investment Limited ("Simple Success"), a substantial shareholder of the Company, entered into an agreement to transfer the principal amount of an unsecured loan and accrued interest with fixed interest rate of 4%, amounting to approximately HK$50,000,000 and HK$2,250,000, respectively, from an independent third party to Simple Success. Accordingly, as at 31 December 2011 and 2012, the loan of approximately HK$52,250,000 is owed to Simple Success. In addition, the Group entered into a supplemental agreement with Simple Success in January 2012 for the extension of maturity date of the borrowing to June 2014.

During the year ended 31 December 2012, the Group entered into a variable-rate loan agreement with a wholly owned subsidiary of Beijing Capital of HK$18,658,000 that will be due in December 2013. The balance is unsecured and carries interest at PRC Benchmark Loan Rate plus 5% per annum.

The remaining borrowing represents the variable-rate borrowing loan of HK$ 2,487,000, that will be repayable on demand with a non-controlling interest shareholder of a subsidiary. The balance is unsecured and carries interest at PRC Benchmark Loan Rate.

	2012	2011
	HK$'000	*HK$'000*
Carrying amount repayable:		
Within one year	**26,592**	52,250
More than one year, but not exceeding two years	**179,302**	—
More than two years, but not exceeding three years	**6,878**	—
More than three years, but not exceeding four years	**7,973**	—
More than four years, but not exceeding five years	**8,856**	—
More than five years	**36,890**	—
	266,491	52,250
Less: Amounts due within one year shown under current liabilities	**(26,592)**	(52,250)
Amounts shown under non-current liabilities	**239,899**	—

The exposure of the Group's fixed-rate and variable-rate borrowings and the contractual maturity dates are as follows:

	2012	2011
	HK$'000	*HK$'000*
Fixed-rate borrowings:		
Within one year	—	52,250
More than one year, but not exceeding two years	**172,896**	—
	172,896	52,250
Variable-rate borrowings:		
Within one year	**26,592**	—
More than one year, but not exceeding two years	**6,406**	—
More than two years, but not exceeding three years	**6,878**	—
More than three years, but not exceeding four years	**7,973**	—
More than four years, but not exceeding five years	**8,856**	—
More than five years	**36,890**	—
	93,595	—

As at 31 December 2012, the Group's fixed-rate borrowings of HK$120,646,000 was secured by the entire equity interest of a subsidiary held by the Group and the Group's variable rate bank borrowing of HK$72,450,000 was secured by a corporate guarantee of a non-controlling shareholder of a newly acquired subsidiary. As at 31 December 2011, no borrowing is secured by any assets.

The range of effective interest rates on the Group's borrowings are as follows:

	2012	2011
Effective interest rate:		
Fixed-rate borrowings	**4.0%–7.2%**	4.0%
Variable-rate borrowings	**PRC Benchmark Loan Rate**	n/a

The Group's borrowings that are denominated in currencies other than the functional currency of the relevant group entities are set out below:

	2012	2011
	HK$'000	*HK$'000*
HK$	**52,250**	52,250

As at the end of the reporting period, the Group has the following undrawn borrowing facilities:

	2012	2011
	HK$'000	*HK$'000*
Floating rate		
— expiring within one year	**379,353**	376,543
Fixed rate		
— expiring beyond one year	**252,487**	370,370
	631,840	746,913

34. CONVERTIBLE NOTES

On 11 December 2009, the Company issued convertible notes with principal amounts of HK$488,000,000 and HK$188,040,000 to Simple Success and Bright Good Limited ("Bright Good") respectively ("Simple Success Convertible Notes" and "Bright Good Convertible Notes" respectively and collectively referred to as "Convertible Notes I") to satisfy part of the consideration for the acquisition of Smartview in prior year. Simple Success is a substantial shareholder of the Company and Bright Good is an independent third party of the Group.

The conversion price is HK$1.20 per share, subject to anti-dilutive adjustment, and the initial number of ordinary shares issuable upon conversion of the Simple Success Convertible Notes and Bright Good Convertible Notes were 406,666,667 and 156,700,000 shares respectively, which represented 37.47% and 14.44% of the total number of ordinary shares of the Company issued and outstanding as of the issuance date of Convertible Notes I on a fully diluted basis. Pursuant to the terms of Convertible Notes I, holders of the Convertible Notes I undertook to the Company that the conversion rights would only be exercised to the extent that the converted shares held by the holders will not trigger a change in control as defined in the Hong Kong Code on Takeovers and Mergers.

The Convertible Notes I bear zero interest and will mature on 10 December 2014, the date on which any outstanding principal amount of the Convertible Notes I shall be redeemed at par if not converted before the maturity date. The Company is not entitled to redeem the Convertible Notes I at any time before the maturity date. Pursuant to the terms of Convertible Notes I, the Convertible Notes I may be assigned or transferred, in whole multiples of HK$1,000,000 of its outstanding principal amount, to any non-connected person of the Company as defined in the Listing Rules.

The holders of the Convertible Notes I shall have the right at any time after the issue date of the Convertible Notes I to convert the whole or part of the outstanding principal amount of the Convertible Notes I into ordinary shares of the Company in full board lot of shares or multiples thereof provided that such amounts shall exceed HK$1,000,000 on each conversion, unless the outstanding principal amount is less than HK$1,000,000 and in such event, the entire outstanding principal amount shall be converted.

The conversion price for the Convertible Notes I was adjusted successively to HK$1.19 per share on 13 April 2010, HK$1.18 per share on 14 April 2010 and HK$1.13 per share on 23 May 2011, upon completion of the placing of shares.

During the year ended 31 December 2010, the outstanding Bright Good Convertible Notes was transferred to Winner Performance Limited ("Winner Performance"), an independent third party.

During the year ended 31 December 2011, the outstanding Simple Success Convertible Notes was transferred to Beijing Capital HK, a substantial shareholder of the Company which has significant influence over the Company.

On 31 October 2011, the Company issued convertible notes with principal amounts of HK$80,500,000 to Best View Enterprises Limited ("Best View") ("Convertible Notes II") to redeem a promissory note with a principal amount of HK$80,500,000. Best View is a substantial shareholder of the Company as at 31 December 2011 under the Securities and Futures Ordinance as of the issuance date of the Convertible Note II.

The conversion price is HK$1.13 per share, subject to anti-dilutive adjustment, and the initial number of ordinary shares issuable upon conversion of the Convertible Notes II was 71,238,000 shares, which represented 5.05% of the total number of ordinary shares of the Company issued and outstanding as of the issuance date of Convertible Notes II. Pursuant to the terms of Convertible Notes II, holders of the Convertible Notes II undertook to the Company that the conversion rights would only be exercised to the extent that the converted shares held by the holders will not trigger a change in control as defined in the Hong Kong Code on Takeovers and Mergers.

The Convertible Notes II bear zero interest and will mature on 31 December 2012, the date on which any outstanding principal amount of the Convertible Notes II shall be redeemed at par if not converted before the maturity date. The Company is not entitled to redeem the Convertible Notes II at any time before the maturity date. Pursuant to the terms of Convertible Notes II, the Convertible Notes II may be assigned or transferred, in whole multiples of HK$1,000,000 of its outstanding principal amount, to any non-connected person of the Company as defined in the Listing Rules.

The holders of the Convertible Notes II shall have the right at any time after the issue date of the Convertible Notes II to convert the whole or part of the outstanding principal amount of the Convertible Notes II into ordinary shares of the Company in full board lot of shares or multiples thereof provided that such amounts shall exceed HK$1,000,000 on each conversion, unless the outstanding principal amount is less than HK$1,000,000 and in such event, the entire outstanding principal amount shall be converted.

The Convertible Notes I contain two components, liability and equity elements. The equity element is presented in equity heading "convertible notes equity reserve". The effective interest rate of the liability component for Convertible Notes I is 13.699% per annum. The Convertible Notes II contain the components, liability and conversion option derivative elements. The fair values of conversion option derivative element are insignificant at the date of issue and at the date of conversion. The effective interest rate of the liability component for Convertible Notes II was 13.65% per annum.

During the year ended 31 December 2012, there is no conversion of Convertible Note I. During the year ended 31 December 2011, Convertible Notes I with principal amounts of HK$224,600,000 and all Convertible Notes II with principal amounts of HK$80,500,000 were converted into 198,760,000 and 71,238,000 ordinary shares of the Company at the conversion price of HK$1.13 per share, respectively.

The movements of the liability component and equity component of Convertible Notes for the year are set out below:

	Convertible Notes I	Convertible Notes II	Total
	HK$'000	*HK$'000*	*HK$'000*
Liability component			
At 1 January 2011	251,730	—	251,730
At date of issue	—	70,363	70,363
Effective interest charged to profit or loss *(Note 10)*	23,979	733	24,712
Transfer to equity upon conversion	(143,430)	(71,096)	(214,526)
At 31 December 2011	132,279	—	132,279
Effective interest charged to profit or loss *(Note 10)*	18,121	—	18,121
At 31 December 2012	150,400	—	150,400
Equity component			
At 1 January 2011	389,426	—	389,426
Transfer to equity on conversion	(228,664)	—	(228,664)
Deferred tax transferred upon conversion of convertible notes	13,394	—	13,394
At 31 December 2011 and 2012	174,156	—	174,156

At 31 December 2011 and 2012, Convertible Notes I with principal amounts of HK$177,000,000 and HK$16,000,000 remained outstanding with Beijing Capital HK and Winner Performance, respectively.

35. CONVERTIBLE BONDS/EMBEDDED DERIVATIVES

On 13 April 2010, the Company issued convertible bonds with a principal amount of HK$156,000,000 to Waste Resources G.P. Limited ("Waste Resources"), an independent third party ("Convertible Bonds I").

The Convertible Bonds I can be converted into ordinary shares of the Company at HK$2.50 per share or ordinary shares of Smartview, a wholly-owned subsidiary of the Company, at HK$271,000 per share, subject to anti-dilutive adjustments. Waste Resources has the right, from 30 days after the issue date of the Convertible Bonds I up to and including the seventh business day immediately before the maturity date, 13 April 2015, to convert the whole or part of the outstanding principal amount of the Convertible Bonds I into ordinary shares of the Company or Smartview at the option of the holder.

The Convertible Bonds I bear zero interest and will mature on 13 April 2015, the date on which the Convertible Bonds I shall be redeemed at an amount that will provide an internal rate of return of 10% per annum on the outstanding principal amount ("Redemption Amount") on the maturity date. The Company is entitled to, by giving not less than 30 but not more than 60 days' notice, redeem all of the outstanding Convertible Bonds I at the Redemption Amount if at least 90 percent in principal amount of the Convertible Bonds I have already been converted or redeemed.

Pursuant to the terms of the Convertible Bonds I, Waste Resources may request redemption of the Convertible Bonds I at the Redemption Amount on or before, 12 June 2013, the 60th day after the third anniversary of the date of issue, if the volume weighted average market price per share of the Company in a period of 30 consecutive trading days immediately before the third anniversary of the date of issue of the Convertible Bonds I is less than the conversion price of the Company.

The conversion price for the Convertible Bonds I was adjusted to HK$2.4 per share on 23 May 2011 upon completion of the placing of shares as detailed in Note 37(a).

On 6 December 2011, the Company signed an agreement with Beijing Capital HK for the subscription of a convertible bond in the principal amount of HK$100,000,000 ("Convertible Bonds II"). The subscription money in the total sum of HK$100,000,000 shall be payable by two instalments of HK$50,000,000 each. The first instalment was paid on 11 September 2012 and the second instalment was paid on 31 December 2012.

The Convertible Bonds II can be converted into ordinary shares of the Company at HK$0.40 per share, subject to anti-dilutive adjustments. Beijing Capital HK shall have the rights to convert the whole or part of the outstanding principal amount of the Convertible Bonds II during the conversion period. The Convertible Bonds II bear zero interest and will mature on 31 December 2014.

The Convertible Bonds I and Convertible Bonds II contain two components for accounting purposes: a liability component and an embedded derivative component being the conversion options derivatives. The effective interest rate of the liability components is 15.85% per annum and 17.32% per annum, respectively. The conversion option derivative is measures at fair value with changes in fair value recognised in profit or loss.

The movement of the liability component and embedded derivatives of the Convertible Bonds for the year are set out as below:

	Convertible Bonds I	**Convertible Bonds II**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Liability component			
At 1 January 2011	133,867	—	133,867
Effective interest charged to profit or loss *(Note 10)*	21,216	—	21,216
At 31 December 2011	155,083	—	155,083
At date of issue	—	70,792	70,792
Effective interest charged to profit or loss *(Note 10)*	24,578	1,747	26,325
At 31 December 2012	179,661	72,539	252,200
Option component			
At 1 January 2011	11,701	—	11,701
Gain on fair value change of embedded derivatives	(3,241)	—	(3,241)
At 31 December 2011	8,460	—	8,460
At date of issue	—	29,208	29,208
Loss (gain) on fair value change of embedded derivatives	18,048	(1,564)	16,484
At 31 December 2012	26,508	27,644	54,152

The fair value of the liability component at the date of issue is calculated using discounted cash flow methodology.

The fair values of the embedded derivatives at 31 December 2011 and 2012 were determined by reference to a valuation conducted by a firm of independent valuers using Binomial Option Pricing Model. The inputs and methodology used for the calculation of the fair values of the embedded derivatives were as follows:

Convertible Bonds I	**31 December 2012**	31 December 2011
Share price	**HK$0.345**	HK$0.38
Risk-free rate	**0.117%**	0.594%
Time to maturity	**2.29 years**	3.29 years
Dividend yield	**0%**	0%
Volatility	**58.18%**	45.11%

Convertible Bonds II	**31 December 2012**	11 September 2012 (Issue date)
Share price	**HK$0.345**	HK$0.385
Risk-free rate	**0.117%**	0.20%
Time to maturity	**2 years**	2.3 years
Dividend yield	**0%**	0%
Volatility	**58.18%**	45.60%

36. DEFERRED TAXATION

The following are the deferred tax (liabilities) assets recognised by the Group and movements thereon during the current and prior years:

	Accelerated tax depreciation *HK$'000*	**Convertible notes** *HK$'000*	**Service concession arrangements** *HK$'000*	**Tax losses** *HK$'000*	**Total** *HK$'000*
At 1 January 2011	(216)	(27,369)	(313)	216	(27,682)
Exchange realignment	—	—	(625)	—	(625)
Released upon conversion of convertible notes	—	13,394	—	—	13,394
Credit to profit or loss	—	3,956	—	—	3,956
At 31 December 2011	(216)	(10,019)	(938)	216	(10,957)
Exchange realignment	—	—	17	—	17
Released upon disposal of subsidiaries	216	—	—	(216)	—
Credit to profit or loss	—	2,869	—	—	2,869
At 31 December 2012	—	(7,150)	(921)	—	(8,071)

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purpose:

	2012 *HK$'000*	2011 *HK$'000*
Deferred tax liabilities	**(8,071)**	(10,957)

The Group has unused tax losses of approximately HK$258,108,000 (2011: HK$314,926,000) available for offset against future profits. The deferred tax asset recognised in prior year in respect of tax loss of HK$1,305,000 was released upon the disposal during the year. No deferred tax asset has been recognised in respect of the tax losses of HK$258,108,000 (2011: HK$313,621,000) due to the unpredictability of future profit streams of the relevant subsidiaries. During the year ended 31 December 2012, unused unrecognised tax losses of approximately HK$102,545,000 were released upon disposal of subsidiaries. The tax loss arising from PRC subsidiaries of approximately RMB156,767,000 (2011: RMB161,912,000) can be carried forward for five years and will be expired during 2013 to 2017 (2011: 2012 to 2016). Other tax losses may be carried forward indefinitely.

At the end of the reporting period, the Group has deductible temporary differences of approximately HK$176,447,000 (2011: HK$144,855,000) in respect of impairment loss recognised on trade receivables, deposits, prepayments and other receivables and amount due from an investee. No deferred tax assets has been recognised in relation to such deductible temporary differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

37. SHARE CAPITAL

	Number of shares	Amount *HK$'000*
Ordinary shares of HK$0.1 each		
Authorised:		
At 1 January 2011 and 31 December 2011	2,000,000,000	200,000
Increase on 19 January	4,000,000,000	400,000
At 31 December 2012	6,000,000,000	600,000
Issued and fully paid:		
At 1 January 2011	1,010,535,039	101,053
Issue of shares under placement *(Note (a))*	202,022,000	20,202
Issue of shares *(Note (b))*	69,326,000	6,933
Conversion of convertible notes *(Note (c))*	269,998,000	27,000
At 31 December 2011	1,551,881,039	155,188
Issue of shares under placement *(Note (d))*	310,376,000	31,038
At 31 December 2012	1,862,257,039	186,226

Note:

The following changes in the share capital of the Company took place during the years ended 31 December 2012 and 2011:

(a) During the year ended 31 December 2011, 202,022,000 ordinary shares of the Company were issued under placement at an issue price of HK$0.4 per share.

(b) During the year ended 31 December 2011, 69,326,000 ordinary shares of the Company were issued to redeem Bright King Promissory Note I and Bright King Promissory Note II with the aggregate carrying amount of HK$37,749,000. The market value of each ordinary share at the time of redemption amounts to HK$0.32. A gain on redemption of promissory notes of HK$15,564,000 is recognised in the current year.

(c) During the year ended 31 December 2011, 198,760,000 and 71,238,000 ordinary shares of the Company were issued upon conversion of Convertible Notes I and Convertible Notes II at the conversion price of HK$1.13 per share.

(d) During the year ended 31 December 2012, 127,244,000 and 183,132,000 ordinary shares of the Company were issued under placement at an issue price of HK$0.39 and HK$0.45 per share, respectively.

38. ACQUISITION OF SUBSIDIARIES

A wholly owned subsidiary of the Company acquired 90% equity interest in Duyun Kelin and 80% equity interest in Weng'an Kelin from Beijing Kelin Haohua Environment Technology Development Company Limited ("Haohua Environmental"), an independent third party, for consideration of approximately HK$36,941,000 and HK$20,895,000 on 23 November 2012 respectively. The acquisitions have been accounted for using purchase method. No goodwill arose from the acquisitions.

Consideration transferred

	Duyun Kelin *HK$'000*	**Weng'an Kelin** *HK$'000*	**Total** *HK$'000*
Cash	25,859	20,895	46,754
Other payables *(Note)*	11,082	—	11,082
	36,941	20,895	57,836

Note: The consideration is paid in January 2013.

Assets acquired and liabilities registered at the date of acquisitions are as follows:

	Duyun Kelin *HK$'000*	**Weng'an Kelin** *HK$'000*	**Total** *HK$'000*
Property, plant and equipment	1,216	—	1,216
Amounts due from grantors for contract work	130,916	39,980	170,896
Deposits, prepayments and other receivables	1,650	12,504	14,154
Bank balances and cash	892	23	915
Trade payables	(7,052)	—	(7,052)
Other payables and accruals	(13,663)	(26,388)	(40,051)
Tax payable	(101)	—	(101)
Borrowings	(72,813)	—	(72,813)
	41,045	26,119	67,164

Non-controlling interest

The non-controlling interests of 10% in Duyun Kelin and 20% in Weng'an Kelin recognised at the acquisition date were measured by reference to the non-controlling interests' proportionate share of Duyun Kelin and Weng'an Kelin identifiable net assets and amounted to HK$4,104,000 and HK$5,224,000 respectively.

Net cash outflow on acquisition

	Duyun Kelin	Weng'an Kelin	Total
	HK$'000	*HK$'000*	*HK$'000*
Cash consideration paid	(25,859)	(20,895)	(46,754)
Bank balances and cash acquired	892	23	915
	(24,967)	(20,872)	(45,839)

Duyun Kelin and Weng'an Kelin contributed profit approximately HK$332,000 and loss approximately HK$46,000 to the Group's loss respectively for the period between the date of acquisition and 31 December 2012.

If the acquisition had been completed on 1 January 2012, total group revenue for the year would have been HK$26,061,000, and loss for the year ended 31 December 2012 would have been HK$142,985,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of the operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2012, nor is it intended to be a projection of future results.

39. DISPOSAL OF SUBSIDIARIES

On 2 December 2011, the Group entered into a disposal agreement to dispose of its wholly-owned subsidiaries, Hembly Garment and its subsidiary, Heng Hua, which were principally engaged in the trading of apparel and accessories, to an independent third party, for a cash consideration of approximately HK$12,000,000.

The disposal of Hembly Garment is conditional upon, among other things, the approval by shareholders at a general meeting of the Company. The disposal of Hembly Garment was approved by the shareholders at an extraordinary general meeting of the Company on 16 January 2012 and completed on 22 February 2012.

The Group's share of net assets of Hembly Garment at the date of disposal and the effect of disposal are as follows:

	HK$'000
Net assets disposed of:	
Property, plant and equipment	326
Trade receivables	24,630
Other receivables	5,015
Amount due from a shareholder	28
Bank balances and cash	118
Trade payables	(7,388)
Accruals	(9,110)
Taxation payable	(2,520)
Obligations under finance leases	(59)
	11,040
Release of translation reserve	(3,607)
Gain on disposal of subsidiaries	4,567
Total consideration	12,000
Satisfied by:	
Cash	12,000
Net cash inflow arising on disposal:	
Cash consideration	12,000
Bank balances and cash disposed of	(118)
	11,882

The subsidiaries disposed of contributed no revenue to the Group and a profit of approximately HK$285,000 to the Group during the year ended 31 December 2012.

No tax charge or credit arose on gain on the disposal.

40. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2012, construction revenue of approximately HK$16,004,000 (2011: HK$19,857,000) was recognised in return for amounts due from grantors for contract work.

During the year ended 31 December 2011, the Bright King Promissory Note II was issued by the Group with a principal amount of approximately HK$461,000 to Bright King for settlement of the deferred contingent consideration in relation to the acquisition of Smartview in 2009, based on the net profit after taxation, non-controlling interest and other comprehensive income of Smartview Group for the year ended 31 December 2010.

During the year ended 31 December 2011, 69,326,000 ordinary shares of the Company were issued to redeem Bright King Promissory Note I with a principal amount of HK$55,000,000 and Bright King Promissory Note II with a principal amount of HK$461,000 at an issue price of HK$0.8 per share.

During the year ended 31 December 2011, Convertible Notes I with principal amounts of HK$224,600,000 and Convertible Notes II with principal amounts of HK$80,500,000 were converted into 198,760,000 and 71,238,000 ordinary shares of the Company at the conversion price of HK$1.13 per share, respectively.

During the year ended 31 December 2011, the Group and Simple Success agreed to transfer the accrued interest of approximately HK$2,250,000 to the principal of the borrowing.

41. OPERATING LEASE COMMITMENT

The Group as lessee

	2012	2011
	HK$'000	*HK$'000*
The Group made rental payment for properties under operating lease as follows:		
Minimum lease payments	**3,996**	2,710

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating lease in respect of rental premises which fall due as follows:

	2012	2011
	HK$'000	*HK$'000*
Within one year	**3,382**	4,469
In the second to fifth years	**1,933**	4,303
	5,315	8,772

Operating lease payments represent rentals payable by the Group for certain of its rented premises. Leases are negotiated for terms ranged from one to three years.

42. CAPITAL COMMITMENT

	2012	2011
	HK$'000	*HK$'000*
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of		
— construction work under service concession arrangements	**518,426**	449,831

43. OTHER COMMITMENTS

On 18 October 2011, a wholly owned subsidiary of the Company entered into a tender agreement with Guangzhou City Management Committee, a governmental authority and acted together with Guangdong Environmental Engineering & Equipment General Corporation to set up a project company with a registered capital of not less than RMB97.87 million which is responsible for building and operating the Guangzhou Likeng Waste Treatment project under a BOT arrangement with a concessionary period of 25 years. 30% of the registered capital of the project company will be contributed by a wholly owned subsidiary of the Company. The tender agreement is effective at 31 December 2012. The capital of the project company has yet to be registered at 31 December 2012.

In August 2012, a subsidiary of the Company received a notice of successful tender from Hebei Province Tendering Company Limited (河北省成套招標有限公司) for a waste treatment project located in Xingtai, Hebei with concession period of 30 years ("Xingtai Project"). The total investment in Xingtai Project shall be approximately RMB330 million. As at 31 December 2012, the Xingtai Project is still pending for the final approval from the relevant PRC government authority.

At 31 December 2012, the Group is bounded by agreement to acquire the remaining equity interest of Duyun Kelin and Weng'an Kelin from Haohua Environmental with preliminary consideration of approximately HK$4.10 million and HK$5.22 million respectively. The date of the transfer has not yet been finalised.

44. CONTINGENT LIABILITIES

At 31 December 2012, the Group provided guarantees of approximately HK$18,148,000 (2011: approximately HK$22,716,000) to a bank in respect of banking facilities granted to an associate. The directors of the Company consider that the fair value of the financial guarantees at date of inception and at the end of the reporting period is insignificant.

45. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") for all qualifying employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. The Group makes monthly contribution at the lower of HK$1,000 from 1 January 2012 to 31 May 2012 and HK$1,250 from 1 June 2012 to 31 December 2012 (2011: HK$1,000) or 5% of the relevant payroll costs to the MPF Scheme.

The employees of the subsidiaries in the PRC are members of state-managed retirement benefits schemes operated by the PRC government. The relevant subsidiaries are required to make contributions to the state-managed retirement benefits schemes in the PRC based on certain percentages of the monthly salaries of their current employees to fund the benefits. The employees are entitled to retirement pension calculated with reference to their basic salaries on retirement and their length of service in accordance with the relevant government regulations. The PRC government is responsible for the pension liability to these retired staff. The only obligation of the Group costs respect to the retirement benefit schemes is to make the specified contributions.

The Group also operates various defined contribution retirement benefits schemes for those employees other than in Hong Kong and the PRC. Contributions are made based on the percentage of the employees' basic salaries and are charged to the consolidated statement of comprehensive income as they become payable in accordance with the rules of these schemes. The assets of these schemes are held separately from those of the Group in various independently administered funds. The Group's employer contributions vest fully with the employees when contributed into the Schemes.

During the year ended 31 December 2012, the pension scheme contributions made by the Group were approximately HK$3,049,000 (2011: HK$2,731,000).

46. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution of the shareholders of the Company and will expire on 14 June 2016. The purpose of the Scheme is to recognise the significant contributions of the eligible persons to the growth of the Group by rewarding them with opportunities to obtain the ownership interest in the Company and to further motivate and give incentives to those persons to continue to contribute to the Group's long term success and prosperity. Under the Scheme, the directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. The Scheme became effective on 13 July 2006 (being the date of listing of the shares of the Company on the Stock Exchange).

At 31 December 2012, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 4,101,532 (2011: 15,068,805), representing 0.22% (2011: 0.97%) of the shares of the Company in issue at that date. The maximum number of shares which may be issued upon exercise of all outstanding share options must not exceed 30% of the issued share capital from time to time.

In addition, the total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue as at 13 July 2006, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5,000,000 must be approved in advance by the Company's shareholders.

Options granted must be taken up within 28 days after the date of grant, upon payment of HK$1.0 per option. Options may be exercised at any time during the period as determined by the directors of the Company. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

Details of specific categories of options are as follows:

Date of grant	Number of options	Adjusted number of options *(Note)*	Vesting period	Exercise period	Exercise price	Adjusted exercise price *(Note)*
18.8.2008	360,000	362,757	Nil	18.8.2008 to 17.8.2018	HK$1.57	HK$1.5581
	540,000	544,136	18.8.2008 to 17.8.2009	18.8.2009 to 17.8.2018	HK$1.57	HK$1.5581
	900,000	906,892	18.8.2008 to 17.8.2010	18.8.2010 to 17.8.2018	HK$1.57	HK$1.5581
11.11.2008	1,830,000	1,844,015	Nil	11.11.2008 to 10.11.2018	HK$0.36	HK$0.3592
	1,830,000	1,844,015	11.11.2008 to 10.11.2009	11.11.2009 to 10.11.2018	HK$0.36	HK$0.3592
	2,440,000	2,458,688	11.11.2008 to 10.11.2010	11.11.2010 to 10.11.2018	HK$0.36	HK$0.3592
6.9.2010	14,300,000	N/A	Nil	6.9.2010 to 5.9.2015	HK$0.501	N/A

Note: The number of share options and exercise price have been adjusted upon the completion of the rights issue of shares of the Company with effect from 26 February 2009.

The following table discloses movements of the Company's share options held by employees and directors during the year:

Share options grant date	Outstanding at 1.1.2012	Granted during the year	Exercised during the year	Lapsed during the year *(Note)*	Outstanding at 31.12.2012
18.8.2008	**1,009,956**	**—**	**—**	**(808,424)**	**201,532**
11.11.2008	**8,849**	**—**	**—**	**(8,849)**	**—**
6.9.2010	**14,050,000**	**—**	**—**	**(10,150,000)**	**3,900,000**
	15,068,805	**—**	**—**	**(10,967,273)**	**4,101,532**
Exercisable at the end of the year	**15,068,805**				**4,101,532**
Weighted average exercise price	**HK$0.57**	**N/A**	**N/A**	**HK$0.58**	**HK$0.55**

The following table discloses movements of the Company's share options held by employees and directors in the prior year:

Share options grant date	Outstanding at 1.1.2011	Granted during the year	Exercised during the year	Lapsed during the year *(Note)*	Outstanding at 31.12.2011
18.8.2008	1,009,956	—	—	—	1,009,956
11.11.2008	8,849	—	—	—	8,849
6.9.2010	14,050,000	—	—	—	14,050,000
	15,068,805	—	—	—	15,068,805
Exercisable at the end of the year	15,068,805				15,068,805
Weighted average exercise price	HK$0.57	N/A	N/A	N/A	HK$0.57

Note: Pursuant to the terms of Scheme, share options are lapsed after three months following the resignation of the employees and directors as well as upon the expiry of the respective exercise periods.

The Black-Scholes option pricing model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

No expense is recognised for the year ended 31 December 2012 and 2011 in relation to share options granted by the Company.

47. RELATED PARTY TRANSACTIONS

During the year, in addition to the balances disclosed in Notes 27, 28, 31, 33, 34 and 35, the Group entered into the following significant transactions with related parties:

(i) The transactions and balances with government related entities are listed below:

The Group operates in an economic environment currently predominated by entities controlled, jointly controlled or significantly influenced by the PRC government ("government-related entities"). A substantial shareholder with significant influence to the Company, Beijing Capital HK, is a company incorporated in Hong Kong with limited liabilities, is ultimately controlled by the PRC government. The ultimate parent of Beijing Capital HK is Beijing Capital Group Co., Ltd, which is controlled by the State-owned Assets Supervision and Administration Commission of People's Government of Beijing Municipality.

(a) Transactions and balances with Beijing Capital HK and its subsidiary:

Name of the related parties	Nature of the transactions	2012	2011
		HK$'000	*HK$'000*
Entity with significant influence over the Group:			
Beijing Capital HK	Interest expenses *(Note)*	**6,050**	—
	Rental expenses *(Note)*	**960**	400

Note: The interest and rentals were charged in accordance with the relevant agreements.

As at 31 December 2012, Beijing Capital HK has granted the Group a three-year term facility of RMB300,000,000 (approximately HK$373,134,000) as disclosed in Note 6.

Details of the outstanding balances with Beijing Capital HK are set out in Note 33.

(b) Transactions and balances with other government-related entities:

During the year ended 31 December 2012 and 2011, the Group recognised revenue from the services under service concession agreement approximately to HK$17,435,000 and HK$19,857,000 respectively under service concession arrangements with the local governments in PRC as disclosed in Note 22.

As at 31 December 2012 and 2011, the deposits paid for construction of infrastructure in service concession arrangements and trade receivable with the government related entities, Urban Construction Institute and Beijing Da Xing, are disclosed in the Notes 25 and 26 respectively.

The Group maintained most of its bank deposits in government-related financial institutions associated with the respective interest income received while banking facility of the Group obtained is also from a government-related financial institution.

Apart from the transactions with related parties disclosed above, the Group also conducts business with other government-related entities. The directors of the Company consider those government-related entities are independent third parties so far as the Group's business transactions with them are concerned.

In establishing its pricing strategies and approval process for transactions with other government-related entities, the Group does not differentiate whether the counter-party is a government-related entity or not.

(ii) The transactions and balances with non government-related entities which are related to the Group are listed below:

Name of the related parties	Nature of the transactions	2012 HK$'000	2011 HK$'000
Associate:			
SZ Yueneng	Interest income *(Note 1)*	**1,376**	926
Substantial shareholder with significant influence:			
Simple Success	Interest expenses *(Note 1)*	**2,090**	1,045
Company controlled by a former director of the Company:			
ST *(Note 2)*	Sales of apparel	**—**	12,854

Note 1: The interest was charged in accordance with the relevant loan agreement.

Note 2: Mr. Ngok Yan Yu, a director and substantial shareholder of the Company with significant influence as at 31 December 2010, has controlling interest in ST. During the year ended 31 December 2011, Mr. Ngok Yan Yu resigned from his directorship of the Company and was not a key management personnel of the Group but still hold approximately 9.39% of the Company's share capital as at 31 December 2011. Hence, ST was not considered as related company to the Group as at 31 December 2011 in accordance with HKAS 24 Related Party Disclosure. The balance with ST as at 31 December 2011 was therefore included in trade receivables.

Details of the outstanding balances with SZ Yueneng and Simple Success are set out in Notes 28 and 33 respectively.

(iii) The remuneration of key management personnel during the year was as follows:

	2012 HK$'000	2011 HK$'000
Short-term benefits	**8,847**	7,067
Post-employment benefits	**—**	20
	8,847	7,087

48. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2012 and 2011 are as follows:

Name of subsidiaries	Place of incorporation/ registration	Issued and fully paid up share capital/registered capital	Proportion of nominal value of issued share capital/registered capital indirectly held by the Company 2012	2011	Principal activities
Hembly Garment *(Note c)*	Hong Kong	Ordinary shares HK$293,440,000	—	100%	Investment holding and trading of apparel and accessories
Heng Hua 恒華（南京）服裝有限公司 *(Note b & c)*	PRC	Registered capital RMB19,999,272	—	100%	Trading of apparel and accessories
Biomax Environmental Technology Limited	Hong Kong	Ordinary shares HK$100	**100%**	100%	Investment holding
Biomax Environment Technology Germany GmbH *(Note b)*	Germany	Registered capital EUR25,000	**100%**	100%	Provision of procurement and consulting services
Win Concept Enterprises Limited	Hong Kong	Ordinary shares HK$100	**100%**	100%	Provision of technical services
NC Biomax CE 南昌百瑪士綠色能源有限公司 *(Note b)*	PRC	Registered capital RMB150,000,000	**100%**	100%	Production and operating of factories for municipal solid waste treatment
Yangzhou Biomax Environmental Development Limited 揚州百瑪士環保產業發展有限公司 *(Note b)*	PRC	Registered capital US$40,000,000	**100%**	100%	Provision of technical services
Shanghai Environmental Biomax Investment Limited 上海環境百瑪士投資有限公司 *(Note b)*	PRC	Registered capital RMB100,000,000	**100%**	100%	Provision of technical services
Biomax Environmental Technology (Shanghai) Company Limited 百瑪士環保科技(上海)有限公司 *(Note b)*	PRC	Registered capital US$5,400,000	**100%**	100%	Provision of consulting services
Beijing Yiqing Biomax Green Energy Park Company Limited 北京一清百瑪士綠色能源有限公司 *(Note b)*	PRC	Registered capital RMB80,845,000	**60%**	60%	Municipal solid waste recycling treatment
Biomax Environment Technology (Beijing) Company Limited 百瑪士環保科技(北京)有限公司 *(Note b)*	PRC	Registered capital US$400,000	**100%**	100%	Provision of consulting services
Duyun Kelin 都勻市科林環保有限公司 *(Note a & b)*	PRC	Registered capital RMB33,000,000	**90%**	—	Municipal solid waste treatment
Weng'an Kelin 甕安縣科林環保有限公司 *(Note a & b)*	PRC	Registered capital RMB21,000,000	**80%**	—	Municipal solid waste treatment

Notes:

(a) These companies were acquired by the Group during the year ended 31 December 2012.

(b) These companies are wholly owned foreign enterprises.

(c) The company was disposed during the year ended 31 December 2012.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, results in particulars of excessive length.

49. EVENT AFTER THE REPORTING PERIOD

The Company proposes to issue not less than 2,793,385,557 rights shares but not more than 2,918,276,793 rights shares at the subscription price of HK$0.20 per right share on the basis of three rights shares for every two existing shares in issue and held on 8 May 2013 or such other date as may be agreed between the Company and Beijing Capital HK, being the underwriter of the right issue ("Rights Issue"). The proposed Rights Issue is intended to raise not less than approximately HK$558.7 million but not more than approximately HK$583.7 million, before expenses. Details of the Rights Issue are set out in the Company's announcement ("Announcement") dated 11 March 2013. The Right Issue is conditional upon the fulfillment of the conditions set out under the sub-section headed "Conditions of the Rights Issue" of the Announcement. The Rights Issue is still in progress up to the issue of these consolidated financial statements.

C. STATEMENT OF INDEBTEDNESS

As at 28 February 2013, being the latest practicable date for the purpose of ascertaining the indebtedness of the Group prior to the printing of this circular, the Group had outstanding (i) convertible notes with principal amount of approximately HK$193 million, (ii) convertible bonds with principal amount of approximately HK$256 million, and (iii) bank and other borrowings of approximately HK$266.5 million (of which HK$73.4 million was unsecured, HK$72.5 million was secured by a corporate guarantee of a non-controlling shareholder of a newly acquired subsidiary and HK$120.6 million was secured by the entire equity interest of a subsidiary held by the Group).

Save as disclosed in this section of this circular and the contingent liabilities in respect of guarantees provided to a bank in respect of banking facilities granted to an associate of approximately HK$17.4 million, as of 28 February 2013, the Group did not have other outstanding mortgages, charges, debentures or other loan capital, bank overdrafts or loans, other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptance or acceptance credits, guarantees or other material contingent liabilities.

D. WORKING CAPITAL

The Directors are of the opinion that, after taking into account the financial resources available to the Group and the estimated net proceeds from the Rights Issue, the Group will have sufficient working capital to satisfy its requirements for at least the next twelve months from the date of this circular.

E. MATERIAL CHANGE

There has been no material change in the financial or trading position or outlook of the Group since 31 December 2012, being the date to which the latest published audited financial statements of the Group were made up.

F. BUSINESS OUTLOOK AND PROSPECTS OF THE GROUP

The economic outlook for 2013 remains uncertain. Sovereign debt problems in Europe, the fiscal cliff conundrum in the United States are amongst the main factors posing continual risks and uncertainties to the recovery and stability of major economies and financial markets around the world, despite the loose monetary measures taken by major central banks globally.

In respect of the Group's waste treatment and waste-to-energy business, the Group is conservatively optimistic about the future development of the green energy industry. According to the "National Plan for Establishing Facilities for Treatment Of Urban Household Waste in a Non-Hazardous Way under the Twelfth Five-Year Plan" of the PRC issued in May 2012, the daily waste processing capacity of waste-to-energy shall be substantially increased from 89,625 tonnes at the end of 2010 to approximately 307,155 tonnes by the end of 2015 at an annual compound growth rate of approximately 28%.

In 2012, the PRC government ranked energy conservation and environmental protection first among the seven "Strategic Emerging Industries" under its "Twelfth Five-Year Plan". The National Development and Reform Commission has also refined the waste-to-energy tariff policy and provided concrete support to the environmental protection industry through special subsidies. In expectation of the great market potential underscored by favourable national policies, the Group will endeavour to seize opportunities in the environmental protection and alternative energy industries to deliver stronger results for its shareholders.

As at 31 December 2012, the Group had eight waste treatment projects that commanded a total investment of approximately RMB2,268 million. The facilities were designed with the annual capacity to process waste of approximately 2,008,050 tonnes which can generate on-grid electricity of approximately 377 million kWh annually.

The Group's future prospects would depend primarily on the commencement of commercial operation of the Beijing Dongcun Sorting Comprehensive Treatment Plant (as discussed on page I-49 of this circular), which is the first waste-to-energy project in the PRC applying the technology of anaerobic digestion. The Group is under negotiation with the local government to extend the service concession period and increase the waste treatment fee of such plant. In 2012, the local government preliminarily agreed to revisit the service concession period and the waste treatment price. The outcome of the negotiation with the local government for the revised terms is expected to be finalised in the first half of 2013. The progress of the construction of the Beijing plant is currently underway and is progressing in line with plan generally. The coming few months will be critical as far as completion of the construction of the Beijing plant is concerned and the Group is continuously monitoring the ongoing progress closely such that the trial run operation can be successfully launched within the Group's anticipated timing in the first half of 2013.

The Xingtai Investment (as discussed on page I-68 of this circular) is pending for the final approval from the relevant PRC government authority. The transformation of Phase 1 construction is expected to complete and entered into the trial run stage in 2013. The construction of Phase 2 will start in 2013 and expected to enter into the trail run stage in 2015.

The Nanchang Solid Waste Incineration Power Generation Plant located in Nanchang Quanling (as discussed on page I-49 of this circular) will continue to be under construction in 2013 and expected to enter into the trial run stage in 2014.

The projects located in Shenzhen Pinghu (as discussed on page I-51 of this circular) and Guizhou Duyun and Weng'an (as discussed on page I-49 of this circular) are all in normal commercial operation.

Looking ahead, with stronger supporting policies from the PRC government and the continued comprehensive support from the substantial Shareholder, the Underwriter, the Company is confident that the Company can realise the full potential of all the opportunities for future development. With rising growth momentum and strong competitive edge in the waste treatment industry, the management of the Group believes that once most of the existing projects commence operation, they will provide contribution to the Group. Thus, the management of the Group is confident of achieving sustained growth in the medium-to-long term.

On the other hand, the Group's available financial resources have been stretched given the requirements of the ongoing projects and the debt maturity profile of the Group. The Company has been exploring various initiatives to seek new funding as demonstrated by the recent fund raising activities of the Company. Efforts to explore new financing including the Rights Issue as well as the proposed debt restructuring are ongoing with a view to improve the Group's financial position and to avail the Group with financial resources for potential investments in due course.

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION

The unaudited pro forma financial information of the Group (the "Unaudited Pro Forma Financial Information") has been prepared by the Directors in accordance with paragraph 4.29 of the Listing Rules to illustrate the effect of the proposed Rights Issue on the basis of three Rights Shares for every two existing Shares held on the Record Date at HK$0.20 per Rights Share on the consolidated net tangible assets of the Group attributable to the owners of the Company as if the Rights Issue had taken place on 31 December 2012.

The Unaudited Pro Forma Financial Information is prepared for illustrative purpose only and, because of its nature, it may not give a true picture of the financial position of the Group as at the date to which it is made up or at any future date.

The Unaudited Pro Forma Financial Information is prepared based on the audited consolidated net tangible assets of the Group attributable to the owners of the Company derived from the audited consolidated statement of financial position of the Group as at 31 December 2012, extracted from the annual report of the Company for the year ended 31 December 2012, with adjustment described below:

Audited consolidated net tangible assets of the Group attributable to the owners of the Company as at 31 December 2012	**Estimated net proceeds from the Rights Issue**	**Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company immediately after the completion of the Rights Issue**
HK$'000	*HK$'000*	*HK$'000*
(Note 1)	*(Note 2)*	
58,430	554,677	613,107

	HK cents
Unaudited consolidated net tangible assets of the Group per Share attributable to the owners of the Company as at 31 December 2012 before the completion of the Rights Issue *(Note 3)*	3.14
Unaudited pro forma adjusted consolidated net tangible assets of the Group per Share attributable to the owners of the Company as at 31 December 2012 immediately after the completion of the Rights Issue *(Note 4)*	13.17

Notes:

1. The audited consolidated net tangible assets attributable to the owners of the Company as at 31 December 2012 of approximately HK$58,430,000 represents the net assets attributable to owners of the Company of approximately HK$60,748,000, as extracted from the audited consolidated statement of financial position of the Group as at 31 December 2012 set out in Appendix I to this circular, and deducting intangible assets of approximately HK$2,318,000.

2. The estimated net proceeds from the Rights Issue of approximately HK$554,677,000 are based on 2,793,385,557 Rights Share to be issued (based on 1,862,257,039 Shares in issue as at 31 December 2012 and assuming no Share Options would be exercised and no Convertible Bonds or Convertible Notes would be converted) at the Subscription Price of HK$0.20 per Rights Share and after deduction of estimated related expenses, including among others, financial advisory fee and other professional fees, which are directly attributable to the Rights Issue, of approximately HK$4,000,000.

3. The audited consolidated net tangible assets attributable to the owners of the Company as at 31 December 2012 before the completion of the Rights Issue is determined based on the audited consolidated net tangible assets of the Group attributable to the owners of the Company as at 31 December 2012 of approximately HK$58,430,000 as disclosed in note (1) above, divided by 1,862,257,039 Shares which represents Company's Shares in issue as at 31 December 2012.

4. Unaudited pro forma adjusted consolidated net tangible assets of the Group per Share attributable to the owners of the Company as at 31 December 2012 immediately after the completion of the Rights Issue is determined based on the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company immediately after the completion of Rights Issue of approximately HK$613,107,000, divided by 4,655,642,596 Shares which represents 1,862,257,039 Shares in issue as at 31 December 2012 and 2,793,385,557 Rights Shares to be issued pursuant to the Rights Issue (based on 1,862,257,039 Shares in issue as at 31 December 2012 and assuming no Share Options would be exercised and no Convertible Bonds or Convertible Notes would be converted).

5. No adjustment has been made to reflect any trading results or other transactions of the Group subsequent to 31 December 2012.

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the Company's reporting accountant, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong.

B. ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

Deloitte.
德勤

ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

TO THE DIRECTORS OF NEW ENVIRONMENTAL ENERGY HOLDINGS LIMITED

We report on the unaudited pro forma financial information of New Environmental Energy Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") as set out in section A of Appendix II to the circular dated 19 April 2013 (the "Circular") issued by the Company, which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the proposed Rights Issue (as defined in the Circular) might have affected the financial information presented. The basis of preparation of the unaudited pro forma financial information of the Group is set out in section A of Appendix II to the Circular.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information of the Group in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma financial information of the Group and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information of the Group beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagements in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of

Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information of the Group has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the unaudited pro forma financial information of the Group as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The unaudited pro forma financial information of the Group is for illustrative purpose only, based on the judgments and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of the financial position of the Group as at 31 December 2012 or any future date.

Opinion

In our opinion:

(a) the unaudited pro forma financial information of the Group has been properly compiled by the directors of the Company on the basis stated;

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

(c) the adjustments are appropriate for the purpose of the unaudited pro forma financial information of the Group as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
19 April 2013

RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules and the Takeovers Code for the purpose of giving information with regard to the Group. The information contained herein (other than that in relation to the Underwriter and parties acting in concert with it) has been supplied by the Directors, who jointly and severally accept full responsibility for the accuracy of such information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement herein misleading.

The information contained herein (other than that relating to the Group) has been supplied by the directors of the Underwriter, who jointly and severally accept full responsibility for the accuracy of such information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement herein misleading.

SHARE CAPITAL AND OPTIONS

Share capital

The share capital of the Company as at the Latest Practicable Date and following completion of the Rights Issue are as follows:

Ordinary shares of HK$0.1 each

Number of Shares		*Amount*
	Authorised:	*HK$'000*
6,000,000,000	As at the Latest Practicable Date	600,000
	Issued and fully paid:	
1,862,257,039	As at the Latest Practicable Date	186,225,704
83,260,824	Maximum number of Shares to be issued upon full exercise of the Share Options, Convertible Bond I and Convertible Note II	8,326,082
2,918,276,793	Maximum number of Rights Shares to be issued pursuant to the Rights Issue	291,827,679
4,863,794,656	Immediately after completion of the Rights Issue assuming issue of the above maximum number of Rights Shares	486,379,465

All the existing issued Shares rank pari passu with each other in all respects including the rights as to voting, dividends and return of capital. The Rights Shares to be allotted and issued will, when issued and fully paid, rank pari passu in all respects with the existing Shares in issue on the date of allotment of the Rights Shares in fully-paid form.

The number of Shares in issue as at the Latest Practicable Date was the same as that as at the end of the last financial year of the Company, being 31 December 2012. There had been no alternation to the issued share capital of the Company since the end of the last financial year of the Company, being 31 December 2012, to the Latest Practicable Date.

Share Options

Details of specific categories of Share Options are as follows:

	Number of Share Options								
	Balance as at 1 January 2012	**Granted during the year**	**Exercised during the year**	**Lapsed during the year**	**Reclassified during the year**	**Balance as at 31 December 2012**	**Exercisable period**	**Exercise price** *(HK$)*	**Approximate percentage of issued share capital of the Company**
Name of Director									
Mr. Marcello Appella	201,532 *(Note 1)*	—	—	—	—	201,532	18/08/2008–17/08/2018	1.5581	0.01%
Employees									
In aggregate	808,424 *(Note 1)*	—	—	(808,424)	—	—	18/08/2008–17/08/2018	1.5581	
	8,849 *(Note 2)*	—	—	(8,849)	—	—	11/11/2008–10/11/2018	0.3592	
	14,050,000 *(Note 3)*	—	—	(10,150,000)	—	3,900,000	06/09/2010–05/09/2015	0.501	
	14,867,273	—	—	(10,967,273)	—	3,900,000			0.21%

Notes:

1. These Share Options were granted on 18 August 2008. 20% of the granted Share Options were vested on 18 August 2008 and exercisable from 18 August 2008 to 17 August 2018. Another 30% of the granted Share Options were vested on 18 August 2009 and exercisable from 18 August 2009 to 17 August 2018. The remaining 50% of the granted Share Options were vested on 18 August 2010 and exercisable from 18 August 2010 to 17 August 2018.

2. These Share Options were granted on 11 November 2008. 30% of the granted Share Options were vested on 11 November 2008 and exercisable from 11 November 2008 to 10 November 2018. Another 30% of the granted Share Options were vested on 11 November 2009 and exercisable from 11 November 2009 to 10 November 2018. The remaining 40% of the granted Share Options were vested on 11 November 2010 and exercisable from 11 November 2010 to 10 November 2018.

3. These Share Options were granted on 6 September 2010 and were vested on 6 September 2010 and exercisable from 6 September 2010 to 6 September 2015.

Upon the Rights Issue becoming unconditional, the exercise price of and/or the number of Shares comprised in the Share Options may be subject to adjustments.

The number of Share Options as at the Latest Practicable Date was the same as that as at the end of the last financial year of the Company, being 31 December 2012.

Convertible securities, options, warrants or similar rights

As at the Latest Practicable Date, save for:

(i) the Convertible Bond I with outstanding principal amount of approximately HK$156 million which carries the right to convert into 65 million Shares at HK$2.4 per Share (subject to usual adjustment for consolidation or subdivision of the Shares, capitalisation of profits or reserves, capital distributions, issue of Shares and other securities by way of rights and issue of new Shares). The conversion period is any time from the 30th day after the issue date up to an including the 7th business day immediately before the 5th anniversary of the issue date. Further details of the terms and conditions of the Convertible Bond I were set out in the announcements of the Company dated 29 January 2010, 13 April 2010 and 16 April 2013 and circular of the Company dated 12 February 2010;

(ii) the Convertible Bond II with outstanding principal amount of approximately HK$100 million which carries the right to convert into approximately 250 million Shares at HK$0.4 per Share (subject to usual adjustment for consolidation or subdivision of the Shares, capitalisation of profits or reserves, capital distributions, issue of Shares and other securities by way of rights and issue of new Shares). The Convertible Bond II shall mature on 31 December 2014. The bondholder shall not have the right to convert the whole or part of the outstanding principal amount of the Convertible Bond II into Shares to the extent that immediately after such conversion, there will not be sufficient public float of the Shares as required under the Listing Rules. In the event that immediately after such conversion, the bondholder together with parties acting in concert with it, taken together, directly or indirectly, control or be interested in 30% or more of the voting rights of the Company (or in such percentage as may from time to time be specified in the Takeovers Code being the level for triggering a mandatory general offer), a general offer shall be given by the bondholder and the parties acting in concert with it in accordance with the requirement of the Takeovers Code or, where applicable, waiver from the Shareholders should be obtained by the bondholder and the parties acting in concert with it in accordance with the Takeovers Code. Further details of the terms and conditions of the Convertible Bond II were set out in the announcements of the Company dated 6 December 2011, 31 August 2012 and 31 December 2012 and circular of the Company dated 31 December 2011;

(iii) the Convertible Note I with outstanding principal amount of approximately HK$177 million which carries the right to convert into approximately 157 million Shares at HK$1.13 per Share (subject to usual adjustment for consolidation or subdivision of the Shares, capitalisation of profits or reserves, capital distributions, issue of Shares and other securities by way of rights and issue of new Shares). The conversion period is any time from the date of issue of the

Convertible Note I to the 5th business day immediately before the maturity date. The instrument constituting the Convertible Note I contains undertakings that the noteholder (i) shall fully comply with all applicable laws, rules and regulations including but not limited to the Listing Rules and the Takeovers Code in respect of the holding of the Convertible Note I, the exercise of its conversion rights, acceptance of conversion shares and settlement of the outstanding principal sum of the Convertible Note I and (ii) shall not exercise the conversion rights to the extent that following such conversion it would result in change in control (as defined under the Takeovers Code) of the Company. Further details of the terms and conditions of the Convertible Note I were set out in the announcements of the Company dated 23 September 2009 and 11 December 2009 and circular of the Company dated 23 November 2009;

(iv) the Convertible Note II with outstanding principal amount of approximately HK$16 million which carries the right to convert into approximately 14 million Shares at HK$1.13 per Share (subject to usual adjustment for consolidation or subdivision of the Shares, capitalisation of profits or reserves, capital distributions, issue of Shares and other securities by way of rights and issue of new Shares). The terms and conditions of the Convertible Note II are the same as those of the Convertible Note I; and

(v) the Share Options,

the Company did not have other options, warrants and other convertible securities or rights affecting the Shares.

On 15 April 2013, the Company received an irrevocable put option exercise notice from Waste Resources G.P. Limited requesting the redemption of Convertible Bond I, therefore Convertible Bond I will not be converted into Shares.

DIRECTORS

Executive Directors

Mr. Yu Chang Jian, aged 57, a senior accountant, was appointed as an executive Director and chairman of the Company in May 2011. Mr. Yu was the section chief of Beijing Chemical Equipment Plant's Finance Department, deputy chief accountant of Supply and Marketing Company of Beijing Chemical Industry Corporation, manager of Planning & Finance Department of Beijing Capital Group Co., Ltd., the chairman of Beijing Capital Securities Co., Ltd., the chairman of China Post & Capital Fund Management Co., Ltd. and chief financial officer of Beijing Capital Group Co., Ltd.. Mr. Yu is serving as a director and the general manager of Beijing Capital.

Mr. Yu has years of experience in financial affairs and financial management, with profound understanding and unique insights of investment and financing for public infrastructure industries. Mr. Yu also has extensive theoretical knowledge and operating experience in economy and finance.

Mr. Cao Guo Xian, aged 49, is a postgraduate, he was appointed as an executive Director and chief executive officer of the Company in July 2011. Mr. Cao served in the foreign language department of Henan Normal University and Bureau of International Cooperation under the Chinese Academy of Sciences. Mr. Cao worked as manager of oversea business department of Beijing Jingfang Economic Development Corporation, assistant to the chairmen of Capital Land Ltd. and deputy officer of the office of Beijing Capital Group Co., Ltd., and he is currently the deputy general manager of Beijing Capital.

Mr. Cao has engaged in overseas investment and financing business for many years, with extensive experience in investment management and wide international perspective. He also has considerable knowledge and operating experience in international investment and financing and capital market.

Mr. Liu Xiao Guang, aged 58, was appointed as an executive Director in May 2011. Mr. Liu is a senior economist, and guest professor and tutor for M.A and Ph.D students of Tsinghua University, Beijing Technology and Business University and Chinese Academic of Social Sciences. He was chief economist and deputy director of the Beijing Municipal Planning Committee. Mr. Liu serves as the chairman and Secretary of the Party Committee of Beijing Capital Group Co., Ltd., the chairman of the board of directors of Beijing Capital, a standing director of China Enterprise Confederation and Chinese Enterprise Directors Association, and the vice-chairman of Beijing Enterprise Directors Association. Moreover, Mr. Liu has been appointed as an executive director and the chairman of Beijing Capital Land Limited since 5 December 2002 and an executive director and the chairman of New Capital International Investment Limited since 14 April 2004. These two companies are listed on the Stock Exchange.

Mr. Marcello Appella, aged 58, is an executive Director. He joined the Group in 2001 and was responsible for sales and marketing of the Group in France. He has over 30 years of experience in the apparel industry and has accumulated substantial business knowledge in both the European and Asian markets. Prior to joining the Group, Mr. Appella had assumed various positions from technical advisor to general manager for international brand names such as Eminence, New Man, Adidas and Jockey International. He obtained a Diploma in Textile Engineering from the National College of Textile Industries of Mulhouse, France in July 1980 and a Master degree in Strategy and Finance from an International Business school EML Lyon in France in 2011.

Mr. Tang Zhi Bin, aged 48, was appointed as an executive Director in May 2011. Mr. Tang has over 20 years of experience in the accounting industry. He has been employed at Biomax Environment Holdings Limited (a subsidiary of the Company) as its investment and strategic consultant, since February 2009. Prior to that, Mr. Tang has been working in senior management and senior financial roles within conglomerates within the People's Republic of China.

Mr. Xue Huixuan, aged 45, is a holder of a Bachelor's Degree, was appointed as an executive Director in July 2012. He was an engineer of the Design Management Department of Sinopec International Petroleum Engineering Company, and took up duties in EDS department of Maison Worley Parsons E&C Co., Ltd. in Beijing as a professional person-in-charge and a project manager. He previously served as the Vice Chairman of Zhong Yuan Guo Xin Credit Guarantee Co., Ltd.. He is presently an executive director of Sino-Union Trust Co., Ltd..

Mr. Xue has been engaged in engineering design, technology introduction, international cooperation, investment and financing as well as guarantee operations for a number of years. He has extensive experience in project management, technology management, financial management and operation.

Non-executive Director

Mr. Lim Jui Kian, aged 41, was appointed as a non-executive Director in April 2010. He is the Managing Director & Head of Asia Environment Group of FourWinds Capital Management since February 2008. FourWinds Capital Management is the investment manager of Waste Resources Fund L.P.. Mr. Lim has more than 15 years experience in the Asian infrastructure and environment sectors. He began his career in equity research in 1994 with Morgan Grenfell/Deutsche Securities and later, Peregrine Securities covering infrastructure, construction and building materials sector in Malaysia, Thailand and Singapore. In 1998, he joined Veolia Water Asia-Pacific where he spent 8 years helping Veolia Water Asia-Pacific build its Asian franchise and worked on acquisitions, joint-ventures, privatisations and project financing transactions. In 2006, Mr. Lim joined JPMorgan Chase's investment banking department to focus on client advisory services in the infrastructure and environment sectors. A Chevening Scholar, Mr. Lim earned his Master of Science (Economics) from the London School of Economics.

Alternate non-executive Director

Mr. Cai Qiao Herman, age 44, was appointed as an alternate non-executive Director to Mr. Lim Jui Kian in September 2010. Mr. Cai is a managing director of FourWinds Capital Management since January 2009. FourWinds Capital Management is the investment manager of Waste Resources Fund L.P.. Mr. Cai has 16 years of experience in the water sector in Asia. He began his career with Joneson Chemicals and moved shortly thereafter to EcoWater Systems as country manager for South East Asia. During his time with Ecowater, he developed industrial water and wastewater treatment solutions for clients in the petrochemical and power sectors. In 2000, Mr. Cai joined Veolia Water as project director for China where he focused on developing, executing and managing Veolia's full service water concessions and, industrial and municipal water/wastewater treatment projects. He successfully concluded investments in key projects such as the Zhuhai Wastewater BOT Project, the Zunyi Water Treatment TOT/BOT Project and the Kunming and Changle full service water concession contracts. Mr. Cai earned his Bachelor of Arts in Business Administration from University of South Australia and post-graduate diploma in Marketing from Chinese University of Hong Kong.

Independent non-executive Directors

Mr. Pao Ping Wing, *JP*, aged 65, was appointed as an independent non-executive Director in June 2006. He had been actively serving on government policy and executive bodies, including those relating to town planning, urban renewal, public housing and environment matters for 23 years. He has been appointed as a Justice of the Peace of Hong Kong since 1987. He was an ex-urban councilor. He obtained a Master of Science Degree in Human Settlements Planning and Development from the Asian Institute of Technology in Thailand in 1980. He was elected as one of the Ten Outstanding Young Persons of Hong Kong in 1982 and one of the Ten Outstanding Young Persons of the World in 1983. He is an independent non-executive director of Oriental Press Group Limited, Sing Lee Software (Group) Limited, UDL Holdings Limited, Zhu Zhou CSR Times Electric Co. Ltd., Soundwill Holdings Limited and Maoye International Holdings Limited, all of which are listed on the Stock Exchange.

Mr. Cheng Kai Tai, Allen, aged 49, was appointed as an independent non-executive Director in January 2010. He is a qualified accountant and a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He has practiced as a Certified Public Accountant in Hong Kong for over 19 years and has extensive professional experience in auditing, taxation, financial management, corporate recovery and restructuring. Mr. Cheng holds a Master Degree of accountancy from Jinan University in Mainland China and is a professional advisor to several international companies of investment management, textile, retailing, metal trading and manufacturing in Mainland China and Japan.

Mr. Li Baochun, aged 48, holds a Master's Degree, was appointed as an independent non-executive Director in July 2012. He served as the head of the Economic Affairs Department of the Liaison Office of the Central People's Government in Macau. He is now a director of the Beijing Private Equity Fund Association. Mr. Li Baochun took part in drafting the relevant documents introduced by Beijing in support of the development of equity investment. He was a judge of the establishment of equity investment funds. He has been invited by overseas countries to give speeches on the investment opportunities in China.

Mr. Li has been engaged in a variety of fields including equity investment, capital market and fund operation for a number of years. He has rich experience in economic areas, financial theoretical knowledge as well as operation.

Dr. Chan Yee Wah, Eva, age 47, was appointed as an independent non-executive Director in July 2012. She has more than 25 years of financial and management experience and has been senior executives of various listed companies in Hong Kong. Dr. Chan is a fellow member of Hong Kong Institute of Certified Public Accountants, a fellow member of the Association of Chartered Certified Accountants and a fellow member of the Hong Kong Institute of Chartered Secretaries. Dr. Chan graduated from City University of Hong Kong with a Bachelor of Arts in Accounting. She then earned her MBA degree from the University of Nottingham. She also obtained a DBA degree from the Polytechnic University of Hong Kong. She is currently the head of investor relations of C C Land Holdings Limited.

SENIOR MANAGEMENT

Mr. Liu Yanjun, was appointed as the deputy general manager of the Company in June 2011. He is responsible for corporate strategies, capital market and management of the Board. Mr. Liu obtained a Bachelor degree in Environmental Science from the Northeast Normal University and a Master degree in Business Administration from the University of Technology of Sydney, Australia. He was previously a chief of office in project management in Harbin Drainage Management, a senior investment manager in PCCW (Beijing) Limited, a deputy general manager of the Strategy Department and a general manager of the International Cooperation Department in Beijing Capital, and a deputy general manager in the Underwriter.

Mr. Liu has over ten years of experience in both areas of environmental protection and capital market. He understands and is familiar with the industry development and the market practices. He participated in and was in charge of the investment in as well as the acquisition and restructuring of a number of environmental protection projects. He possesses extensive solid experience in the formulation of the development strategies for investment companies and the operation of capital market.

Mr. Xu Jinjun, was appointed as the deputy general manager of the Company in June 2011. He is responsible for investment, technology and engineering as well as project operational management. Mr. Xu obtained a Master degree from the Chinese Academy of Sciences. He has an educational background in both the management and environmental engineering. He was previously a secretary to general manager in Beijing Cement Plant of BBMG Group, a general manager of the Department of Water Business Unit in Duoyuan Global Water Inc., a general manager of the Market Management Department in Duoyuan Electricity and Gas, and a deputy general manager in Hunan Capital Investment Co., Ltd..

Mr. Xu has over ten years of experience in the environmental protection area. He has extensive knowledge in the financial forecast, laws and regulations, technological standards and relevant industry practices for franchising projects of public utilities. He has a well-developed network in the environmental protection industry and is good at team building and organisational management. He has relatively deep knowledge about and extensive practical experience in the investment, construction and operational management in public infrastructures.

Mr. Wang Wei, was appointed as the chief financial officer and the financial controller of the Company in February 2013 and June 2011 respectively. He is responsible for the financial management of the Group, and the financial management and financing for project companies. Mr. Wang obtained a Bachelor degree in Accounting and Economics from Capital University of Economics and Business and a Master degree in Professional Accounting from the Business School of Renmin University of China, and obtained the PRC Certified Public Accountant qualification in 2001. He was previously an auditing project manager in Grant Thornton, a senior manager of the Audit Department in Tsinghua Tong Fang Co. Ltd., a senior investment manager of the Investment Department and a senior investment analyst of the Financial Department in Beijing Capital, an expatriate financial controller in Shenzhen Capital Water Co. Ltd., an expatriate financial controller in Capital AIHUA (Tianjin) Municipal Environmental Engineering Co., Ltd., an expatriate financial controller in Haining Capital Water Co., Ltd. and an expatriate financial controller in Qingdao Capital Water Co., Ltd..

Mr. Wang has over ten years of experience in the environmental protection area and is familiar with the investment forecast of urban infrastructure projects. He has extensive experience particularly in the financial management and corporate finance of urban infrastructure companies.

Ms. Wong Bing Ni, was appointed as company secretary and authorised representative of the Company in June 2010. Ms. Wong is a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants, and an associate member of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators. She holds a Master degree in Professional Accounting and she has over ten years of experience in company secretarial matters, internal control and financial management which acquired from listed companies in Hong Kong.

CORPORATE INFORMATION

Registered office	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Head office and principal place of business	Units 1613–1618 16th Floor Bank of America Tower 12 Harcourt Road, Central Hong Kong
Company secretary	Ms. Wong Bing Ni *FCPA, FCCA, ACIS, ACS*
Authorised representatives	Mr. Yu Chang Jian Units 1613–1618 16th Floor Bank of America Tower 12 Harcourt Road, Central Hong Kong Ms. Wong Bing Ni Units 1613–1618 16th Floor Bank of America Tower 12 Harcourt Road, Central Hong Kong
Auditors	Deloitte Touche Tohmatsu Certified Public Accountants 35th Floor, One Pacific Place 88 Queensway Hong Kong
Principal share registrar and transfer agent	Butterfield Fulcrum Group (Cayman) Limited Butterfield House 68 Fort Street P.O. Box 705 George Town Grand Cayman Cayman Islands

Branch share registrar in Hong Kong	Tricor Secretaries Limited 26th Floor, Tesbury Centre 28 Queen's Road East Wanchai Hong Kong
Principal bankers	Bank of China (Hong Kong) Limited Bank of China Tower, 1 Garden Road, Hong Kong
	The Hongkong and Shanghai Banking Corporation Limited HSBC Main Building, 1 Queen's Road, Central Hong Kong

PARTIES INVOLVED IN THE RIGHTS ISSUE

Underwriter	Beijing Capital (Hong Kong) Limited Unit 1613–1618 16th Floor, Bank of America Tower 12 Harcourt Road, Central Hong Kong
Financial adviser to the Company	Quam Capital Limited 18th–19th Floor, Aon China Building 29 Queen's Road Central Hong Kong
Legal advisers to the Company	Jun He Law Offices Suite 2008 20th Floor, Jardine House 1 Connaught Place, Central Hong Kong

MARKET PRICES

The table below shows the closing price of the Shares on the Stock Exchange on (i) the last day on which trading took place in each of the calendar months during the Relevant Period; (ii) the Last Trading Day; and (iii) the Latest Practicable Date:

Date	**Closing price per Share** *HK$*
28 September 2012	0.360
31 October 2012	0.365
30 November 2012	0.355
31 December 2012	0.345
31 January 2013	0.330
27 February 2013 (which was the Last Trading Day)	0.350
28 February 2013	suspended
28 March 2013	0.270
16 April 2013 (which was the Latest Practicable Date)	0.290

The highest and lowest closing prices per Share recorded on the Stock Exchange during the Relevant Period were HK$0.390 on 10 September 2012 and HK$0.248 on 13 March 2013 and 19 March 2013, respectively.

DISCLOSURE OF INTERESTS

Interests of the Directors and chief executives in the Company

As at the Latest Practicable Date, the interests of the Directors in the share capital of the Company which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests which they were taken or deemed to have under such provisions of the SFO), or were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules, to be notified to the Company and the Stock Exchange (except the changes arising as a result of the Underwriting Agreement) were as follows:

(a) Long position in Shares

Name of Director	Nature of interests	Number of Shares held	Approximate percentage of shareholdings
Mr. Marcello Appella	Interest of a controlled corporation *(Note)*	3,588,030	0.19%

Note:

These Shares were held by Sycomore Limited ("Sycomore"), which was owned as to 50% by Mr. Marcello Appella, an executive Director, and 50% by Mrs. Maguy, Alice, Juliette, Marie Pujol ep. Appella, the spouse of Mr. Marcello Appella. As such, Mr. Marcello Appella was deemed or taken to be interested in the Shares held by Sycomore for the purposes of the SFO.

(b) Long position in Share Options

Name of Director	Nature of interests	Number of underlying Shares in respect of the Share Options granted	Approximate percentage of issued share capital of the Company
Mr. Marcello Appella	Beneficiary owner	201,532	0.01%

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or any chief executive of the Company or their respective associates had any interests or short position in any shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the

SFO, to be entered in the register referred to therein, or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules to be notified to the Company and the Stock Exchange.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had any interest in the Shares, options, warrants, derivatives and securities carrying conversion or subscription rights into Shares.

Interests of other persons in the share capital of the Company

As at the Latest Practicable Date, so far as is known to the Directors, Shareholders (other than a Director or chief executive of the Company) who had interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO (except the changes arising as a result of the Underwriting Agreement) or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstance at general meetings of any subsidiaries of the Company were as follows:

(a) Interests in the Company

Name of Shareholders	Nature of interests	Number of Shares/ underlying Shares held	Approximate percentage of shareholdings
The Underwriter	Beneficial owner *(Note 1)*	705,659,168(L)	37.89%
Beijing Capital	Interest of controlled corporations *(Note 1)*	714,943,168(L)	38.39%
Simple Success Investments Limited	Beneficial owner *(Note 2)*	270,760,000(L)	14.54%
New World Strategic Investment Limited	Interest of a controlled corporation *(Note 2)*	270,760,000(L)	14.54%
New World Development Company Limited	Interest of a controlled corporation *(Note 2)*	270,760,000(L)	14.54%
Chow Tai Fook Enterprises Limited	Interest of a controlled corporation *(Note 2)*	270,760,000(L)	14.54%
Chow Tai Fook (Holdings) Limited	Interest of a controlled corporation *(Note 2)*	270,760,000(L)	14.54%
Chow Tai Fook Capital Limited	Interest of a controlled corporation *(Note 2)*	270,760,000(L)	14.54%
Cheng Yu Tung Family (Holdings) Limited	Interest of a controlled corporation *(Note 2)*	270,760,000(L)	14.54%
Cheng Yu Tung Family (Holdings II) Limited	Interest of a controlled corporation *(Note 2)*	270,760,000(L)	14.54%
Best View Enterprises Limited	Beneficial owner *(Note 3)*	221,308,205(L)	11.88%

Name of Shareholders	Nature of interests	Number of Shares/ underlying Shares held	Approximate percentage of shareholdings
Chow Tai Fook Nominee Limited	Interest of a controlled corporation *(Note 3)*	221,308,205(L)	11.88%
Mr. Cheng Yu Tung	Interest of a controlled corporation *(Note 3)*	221,308,205(L)	11.88%
Year Good Group Limited	Beneficial owner *(Note 4)*	127,244,000(L)	6.83%
Mr. Lau Andrew Kim	Interest of controlled corporation *(Note 4)*	127,244,000(L)	6.83%
Favor Action Limited	Beneficial owner *(Note 5)*	110,000,000(L)	5.91%
Mr. Yang Zhi You	Interest of controlled corporation *(Note 5)*	110,000,000(L)	5.91%

(L) denotes a long position

Notes:

1. These Shares represent 299,022,000 Shares and 406,637,168 underlying Shares which may be issuable upon conversion of all the outstanding amount of the Convertible Bond II and the Convertible Note I held by the Underwriter, which was a wholly-owned subsidiary of Beijing Capital, and 9,284,000 Shares held by BC Water Investments Co., Ltd., an indirect wholly-owned subsidiary of Beijing Capital. As such, Beijing Capital was deemed to have interest in the said Shares and underlying Shares held by the Underwriter and BC Water Investments Co., Ltd. for the purposes of the SFO.

2. These Shares represent 270,760,000 Shares held by Simple Success Investments Limited, which was a wholly-owned subsidiary of New World Strategic Investment Limited, which was in turn wholly-owned by New World Development Company Limited. Cheng Yu Tung Family (Holdings) Limited and Cheng Yu Tung Family (Holdings II) Limited hold 49% and 40.2% interests in Chow Tai Fook Capital Limited, respectively. Chow Tai Fook Capital Limited in turn owns 74.1% interest in Chow Tai Fook (Holding) Limited which holds the entire interest in Chow Tai Fook Enterprises Limited, which in turn has more than one-third of the issued shares of New World Development Company Limited. As such, Cheng Yu Tung Family (Holdings II) Limited, Cheng Yu Tung Family (Holdings) Limited, Chow Tai Fook Capital Limited, Chow Tai Fook (Holdings) Limited, Chow Tai Fook Enterprises Limited, New World Development Company Limited, New World Strategic Investment Limited were deemed to have interest in the said Shares held by Simple Success Investments Limited for the purposes of the SFO.

3. These Shares represent 221,308,205 Shares held by Best View Enterprises Limited. Best View Enterprises Limited is wholly owned by Chow Tai Fook Nominee Limited, which is in turn controlled by Mr. Cheng Yu Tung. As such, Chow Tai Fook Nominee Limited and Mr. Cheng Yu Tung were deemed to have interest in the said Shares and underlying Shares held by Best View Enterprises Limited for the purpose of the SFO.

4. These Shares represent 127,244,000 Shares held by Year Good Group Limited which was wholly owned by Mr. Lau Andrew Kim. As such, Mr. Lau Andrew Kim was deemed to have interest in the said Shares held by Year Good Group Limited for the purposes of the SFO.

5. These Shares represent 110,000,000 Shares held by Favor Action Limited which was wholly owned by Mr. Yang Zhi You. As such, Mr. Yang Zhi You was deemed to have interest in the said Shares held by Favor Action Limited for the purposes of the SFO.

Save as disclosed in this paragraph, as at the Latest Practicable Date, none of the Underwriter, the directors of the Underwriter and parties acting in concert with the Underwriter had any other interest in the Shares, options, warrants, derivatives and securities carrying conversion or subscription rights into Shares; and there was no person known to the Directors or the chief executive of the Company other than the Directors or the chief executive of the Company, who had an interest or short position in the Shares and underlying Share of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

(b) Interests in the subsidiaries of the Company

As at the Latest Practicable Date, there was no person known to the Directors or the chief executive of the Company other than the Directors or the chief executive of the Company, who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any subsidiaries of the Company, or any options in respect of such capital.

Interests in the Underwriter

As at the Latest Practicable Date, the Group did not have any interest in the shares, options, warrants, derivatives and securities carrying conversion or subscription rights into shares of the Underwriter or its associates.

As at the Latest Practicable Date, the entire issued share capital of the Underwriter was beneficially owned by Beijing Capital and none of the Directors had any interest in the shares, options, warrants, derivatives and securities carrying conversion or subscription rights into shares of the Underwriter or its associates.

Set out below are particulars of the directors of the Underwriter, BC Water Investments Co., Ltd. and Beijing Capital as at the Latest Practicable Date:

(a) Members of the board of directors of the Underwriter

1. Mr. Liu Xiao Guang (劉曉光先生)

2. Mrs. Cao Gui Jie (曹桂杰女士)

3. Mr. Yan Li (閻利先生)

4. Mr. Yu Chang Jian (俞昌建先生)

5. Mr. Cao Guo Xian (曹國憲先生)

6. Mr. Ge Ze Min (葛澤民先生)

(b) Members of the board of directors of BC Water Investments Co., Ltd.

1. Mr. Cao Guo Xian (曹國憲先生)

2. Mr. Ge Ze Min (葛澤民先生)

3. Mr. Pan Wen Tang (潘文堂先生)

(c) Members of the board of directors of Beijing Capital

Executive Directors:

1. Mr. Shen Jian Ping (沈建平先生)

2. Mr. Zhang Heng Jie (張恒傑先生)

3. Mr. Yu Chang Jian (俞昌建先生)

4. Mr. Pan Wen Tang (潘文堂先生)

5. Mr. Liu Xiao Guang (劉曉光先生)

6. Mr. Feng Chun Qin (馮春勤先生)

7. Mr. Chang Wei Ke (常維柯先生)

Independent Non-Executive Directors:

8. Mr. Leng Ke (冷克先生)

9. Ms. Deng Xiao Feng (鄧小豐女士)

10. Mr. Fu Tao (傅濤先生)

11. Mr. Cheng Xiu Sheng (程秀生先生)

Dealings in securities of the Company

During the Relevant Period, none of the Directors, the Underwriter, its directors or parties acting in concert with any of them had any dealings in the shares, options, warrants, derivatives and securities carrying conversion or subscription rights into shares of the Company.

Dealings in securities of the Underwriter

During the Relevant Period, none of the Directors or the Company had any dealings in the shares, options, warrants, derivatives and securities carry conversion or subscription rights into shares of the Underwriter.

Interests of experts in the Group

None of the experts named in the paragraph headed "Qualification of experts" in this appendix has any shareholding in any company in the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any company in the Group.

Interests in contract or arrangement

None of the Directors has any interests in contract or arrangement subsisting at the date of this circular which is significant in relation to the business of the Group taken as a whole.

Interests in assets

None of the Directors or experts named in the paragraph headed "Qualification of experts" in this appendix has any direct or indirect interest in any assets acquired or disposed of by or leased to any member of the Group or that are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2012, being the date to which the latest published audited accounts of the Company were made up.

Service contracts

As at the Latest Practicable Date, there is no service contract with the Company or any of its subsidiaries or associated companies in force for the Directors (i) which (including both continuous and fixed term contracts) has been entered into or amended within 6 months before the date of the Announcement; (ii) which is continuous contract with a notice period of 12 months or more; or (iii) which is fixed term contract with more than 12 months to run irrespective of the notice period.

Miscellaneous

As at the Latest Practicable Date:

(a) no Shares, options, derivatives and securities carrying conversion or subscription rights into Shares was owned or controlled by a subsidiary of the Company or by a pension fund of any member of the Group or by Quam Capital Limited or China Galaxy or by any adviser to the Company as specified in class (2) of the definition of associate under the Takeovers Code;

(b) no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate under the Takeovers Code;

(c) no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Underwriter or any person acting in concert with the Underwriter;

(d) no Shares, options, warrants, derivatives and securities carrying conversion or subscription rights into Shares was managed on a discretionary basis by fund managers connected with the Company;

(e) none of the Company, the Directors, the Underwriter or any person acting in concert with the Underwriter had borrowed or lent any Shares, options, warrants, derivatives and securities carrying conversion or subscription rights into Shares;

(f) none of the Underwriter or any person acting in concert with it had borrowed or lent any Shares, options, warrants, derivatives and securities carrying conversion or subscription rights into Shares;

(g) no benefit has been or would be given to any Director as compensation for loss of office or otherwise in connection with the Rights Issue, the Underwriting Agreement, the Whitewash Waiver and/or the Special Deals;

(h) save for the Underwriting Agreement, there was (i) no agreement, arrangement or understanding (including any compensation arrangement) between the Underwriter or any person acting in concert with it and any Director, recent Director, Shareholder or recent Shareholder which had any connection with or dependence upon the Rights Issue, the Underwriting Agreement, the Whitewash Waiver and/or the Special Deals; and (ii) no agreement or arrangement between any Director and any other person which was conditional on or dependent upon the outcome of the Rights Issue, the Underwriting Agreement, the Whitewash Waiver and/or the Special Deals or otherwise connected with the Rights Issue, the Underwriting Agreement, the Whitewash Waiver and/or the Special Deals;

(i) no agreement, arrangement or understanding between the Underwriter and any other person whereby the Shares to be acquired under the Rights Issue will be transferred, charged or pledged to any other persons;

(j) save for the Underwriting Agreement, no material contracts had been entered into by the Underwriter in which any Director had any a material personal interest;

(k) save for the Underwriting Agreement, the Convertible Note I and the Set-off Arrangement, there was no agreement or arrangement to which the Underwriter was a party which related to the circumstances in which it may or may not invoke or seek to invoke a condition to the Rights Issue;

(l) save that BC Water Investments Co., Ltd., which together with the Underwriter, are wholly-owned subsidiaries of Beijing Capital, owns 9,284,000 Shares, no Shares, options, warrants, derivatives and securities carrying conversion or subscription rights into Shares was owned or controlled by any persons acting in concert with the Underwriter;

(m) Mr. Marcello Appella, an executive Director, is beneficially interested in 3,588,030 Shares and has indicated his intention to vote for the Underwriting Agreement, the Whitewash Waiver and the Special Deals in the EGM; and

(n) none of the debt securities of the Company is listed or dealt in on any stock exchange and no such listing or permission to deal is proposed to be sought.

MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business carried on or intended to be carried on by the Group) have been entered into by members of the Group within the two years preceding the date of the Announcement and up to the Latest Practicable Date and are or may be material:

(a) the subscription agreement dated 29 March 2011 entered into between the Company and the Underwriter in respect of the subscription of a total of 202,022,000 Shares at a subscription price of HK$0.40 per Share for a gross proceeds of approximately HK$80.8 million;

(b) the redemption deed dated 4 August 2011 entered into among the Company, Rising Boom Enterprises Limited ("Rising Boom") and Bright King Investments Limited ("Bright King") in respect of the redemption of Bright King promissory note and Bright King performance based promissory note in consideration for the issue of the 68,750,000 Shares and 576,000 Shares respectively by the Company to Bright King;

(c) the redemption deed dated 4 August 2011 entered into among the Company, Rising Boom and Best View Enterprises Limited in respect of the redemption of Bright Good Limited promissory note by the Company in consideration for the issue of the convertible note in the principal amount of HK$80.5 million to Best View Enterprises Limited;

(d) the tender agreement dated 18 October 2011 entered into among Biomax Environment Holdings Limited (an indirect wholly-owned subsidiary of the Company), 廣東省環境工程裝備總公司 (Guangdong Environmental Engineering & Equipment General Corporation*) and 廣州市城市管理委員會 (Guangzhou City Management Committee*) in respect of setting up a project company with a registered capital of not less than RMB97.87 million to build and operate the 廣州市李坑生活垃圾綜合處理工程項目 (the Guangzhou Likeng Waste Treatment Project) under Build-Operate-Transfer (BOT) arrangement with a concessionary period of 25 years;

(e) the framework agreement dated 25 October 2011 entered into between the Company and 山東省濟寧市人民政府 (Jining Municipal People's Government, Shandong Province) ("Jining Municipal People's Government") in respect of setting up a project company with Jining Municipal People's Government to invest, build and operate a project involving the reclamation of land in Jining City, Shandong Province, the PRC under Build-Operate-Own (BOO) arrangement;

(f) the subscription agreement dated 6 December 2011 entered into between the Company, as the issuer and the Underwriter, as the subscriber in respect of the subscription of the Convertible Bond II in the principal amount of HK$100,000,000 at an initial conversion price of HK$0.40 per conversion share by the Underwriter;

(g) the disposal agreement dated 2 December 2011 entered into among Full Prosper Company Limited, a wholly-owned subsidiary of the Company, as the vendor, Golden Prestige Investments Limited, as the purchaser and Mr. Wang Cheng Jun, as the guarantor in respect of disposal of the entire issued share capital of Hembly Garment Manufacturing Limited which was principally engaged in trading of apparel and accessories for a consideration of HK$12,000,000;

(h) the agreement dated 6 December 2011 entered into between 株洲首創水務有限責任公司 (Zhuzhou Beijing Capital Water Treatment Company Limited*) and Yangzhou Biomax Environmental Development Limited (an indirect wholly owned subsidiary of the Company) in respect of the acquisition of the entire issued share capital of 醴陵首創垃圾綜合處理有限責任公司 (Lining Beijing Capital Waste Treatment Company Limited*) at a consideration of RMB51 million;

(i) the placing agreement dated 3 August 2012 entered into among Simple Success Investments Limited, the Company and Quam Securities Company Limited (as placing agent) in respect of the placing of the total of 127,244,000 Shares beneficially owned by Simple Success Investments Limited at an issue price of HK$0.39 per Share;

(j) the subscription agreement dated 3 August 2012 entered into between the Company and Simple Success Investments Limited in respect of the subscription of a total of 127,244,000 Shares at a subscription price of HK$0.39 per Share for a total gross proceeds of approximately HK$49.6 million;

(k) the acquisition agreement dated 24 August 2012 entered into between Shanghai Environmental Biomax Investment Limited, an indirect wholly-owned subsidiary of the Company and Beijing Kelin Haohua Environment Technology Development Company Limited (北京科林皓華環境科技發展有限責任公司) in respect of the acquisition of 100% equity interest in Duyun Kelin Environment Company Limited (都勻市科林環保有限公司) at a consideration of RMB33 million;

(l) the acquisition agreement dated 24 August 2012 entered between Shanghai Environmental Biomax Investment Limited, an indirect wholly-owned subsidiary of the Company and Beijing Kelin Haohua Environment Technology Development Company Limited (北京科林皓華環境科技發展有限責任公司) in respect of acquisition of 100% equity interest in Weng'an Kelin Environment Company Limited (甕安縣科林環保有限公司) at a consideration of RMB21 million;

(m) the placing and subscription agreement dated 19 October 2012 entered into among Simple Success Investments Limited, the Company and Quam Securities Company Limited (as placing agent) in respect of the placing of the total of 183,132,000 Shares beneficially owned by Simple Success Investments Limited at an issue price of HK$0.45 per Share and the subscription of a total of 183,132,000 Shares at a subscription price of HK$0.45 per Share for a total gross proceeds of approximately HK$82.4 million;

(n) the supplementary loan agreements dated 16 November 2012 between Yangzhou Biomax Investment Limited (as borrower and an indirect wholly-owned subsidiary of the Company) and Beijing Capital (as lender) in respect of amending (a) the loan agreement (as supplemented on the same date) dated 20 February 2012 entered into between Beijing Capital (as lender) and Yangzhou Biomax Investment Limited (as borrower) in relation to provision of an unsecured loan with a principal amount of RMB40 million; (b) the loan agreement (as supplemented on the same date) dated 20 August 2012 entered into between Beijing Capital (as lender) and Yangzhou Biomax Investment Limited (as borrower) in relation to provision of an unsecured loan with principal amount of RMB40 million; and (c) the loan agreement (as supplemented on the same date) dated 20 August 2012 entered into between Beijing Capital (as lender) and Yangzhou Biomax Investment Limited (as borrower) in relation to provision of an unsecured loan with a principal amount of RMB21 million (collectively the "Existing Loan Agreements") to the effect that (i) the respective term of the existing loan agreements shall be extended for another 24 months commencing upon satisfaction of the condition under the supplementary loan agreements; and (ii) the loans under the Existing Loan Agreements shall be secured by the charge under the share charge agreement;

(o) the share charge agreement dated 16 November 2012 entered between Shanghai Environmental Biomax Investment Limited (as charger and an indirect wholly-owned subsidiary of the Company) and Beijing Capital (as chargee), pursuant to which Shanghai Environmental Biomax Investment Limited charged all its beneficially owned rights to and interests in the entire equity interest of Nanchang Biomax Green Energy Park Company Limited in favour of Beijing Capital over the charge period so as to provide guarantee for fulfillment of the obligations of Yangzhou Biomax Investment Limited under the supplementary loan agreements as stated in (n) above; and

(p) the Underwriting Agreement.

LITIGATION

None of the members of the Group was engaged in any litigation or arbitration of material importance and there is no litigation or claim of material importance known to the Directors to be pending or threatened by and against any member of the Group as at the Latest Practicable Date.

QUALIFICATION OF EXPERTS

The qualifications of the experts who have given opinions in this circular are as follows:

Name	Qualification
Deloitte Touche Tohmatsu	Certified Public Accountants
China Galaxy International Securities (Hong Kong) Co., Limited	A licensed corporation for carrying out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO

CONSENTS

The experts named in the paragraph headed "Qualification of experts" in this appendix have given and have not withdrawn their respective written consents to the issue of this circular with copies of their reports or letters (as the case may be) and the references to their names included herein in the form and context in which they are respectively included.

Quam Capital Limited, the financial adviser to the Company, has given and has not withdrawn its consent to the publication of its name in this circular.

GENERAL

(a) The registered office of the Underwriter is situated at Units 1613–1618, 16th Floor, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong.

(b) The registered office of BC Water Investments Co., Ltd. is situated at P.O. Box 3321, Road Town, Tortola, British Virgin Islands.

(c) The registered office of Beijing Capital is situated at 15th Floor, Office Building, Jade Palace Hotel, No.76 Zhichun Road, Haidian District, Beijing, the PRC.

(d) The address of China Galaxy is at Room 3501–3507, 35th Floor Cosco Tower, 183 Queen's Road Central, Hong Kong.

(e) The English text of this circular shall prevail over the Chinese text.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection (i) at the principal place of business of the Company in Hong Kong at Units 1613–1618, 16th Floor, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong during normal business hours from 9:30 a.m. to 6:00 p.m. on any Business Day from the date of this circular up to and including the date of the EGM; (ii) on the website of the SFC (www.sfc.hk); and (iii) on the Company's website (www.neeh.com.hk):

(a) this circular;

(b) the memorandum and articles of association of the Company;

(c) the memorandum and articles of association of the Underwriter;

(d) the annual reports of the Company for each of the two years ended 31 December 2011 and 2012;

(e) the letter from China Galaxy;

(f) the letter from the Independent Board Committee;

(g) the letter from the Board;

(h) the accountants' report on the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group issued by Deloitte Touche Tohmatsu, the text of which is set out in Appendix II to this circular;

(i) the material contracts referred to in the paragraph headed "Material contracts" in this appendix; and

(j) the written consents referred to in the paragraph headed "Consents" in this appendix.

NEW ENVIRONMENTAL ENERGY HOLDINGS LIMITED
新環保能源控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 03989)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of New Environmental Energy Holdings Limited (the "**Company**") will be held at 11:00 a.m. on Tuesday, 7 May 2013, at Unit 1613–1618, 16/F, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong for the purposes of considering and, if thought fit, passing with or without modifications the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. "**THAT** subject to and conditional upon the fulfilment or waiver (as applicable) of the conditions set out in the underwriting agreement dated 27 February 2013 (the "**Underwriting Agreement**") made between the Company and Beijing Capital (Hong Kong) Limited as the underwriter (the "**Underwriter**"), a copy of which has been produced to this meeting marked "A" and signed by the Chairman of this meeting for the purpose of identification, and the Underwriting Agreement not being terminated in accordance with its terms:

   (a) the issue by way of rights (the "**Rights Issue**") of not less than 2,793,385,557 and not more than 2,918,276,793 new shares of par value of HK$0.10 each in the share capital of the Company (the "**Rights Share(s)**") to the shareholders of the Company (the "**Shareholders**") whose names appear on the register of members of the Company at the close of business on Record Date (as defined in the circular of the Company dated 19 April 2013 ("**Circular**")) other than those Shareholders (the "**Excluded Shareholders**") whose registered addresses as shown on the register of members of the Company are outside Hong Kong and whom the directors of the Company, after making such enquiries, consider it is necessary or expedient not to offer the Rights Shares to them on account either of the legal restrictions under the laws of the relevant places or the requirements of the relevant regulatory bodies or stock exchanges in those places, in the proportion of three Rights Shares for every two existing shares of the Company then held on the Record Date at the subscription price of HK$0.2 per Rights Share and otherwise on the terms and conditions as set out in the Circular despatched to the Shareholders containing the notice convening this meeting, a copy of the Circular has been produced to this meeting marked "B" and signed by the Chairman of this meeting for the purpose of identification, be and is hereby approved; and

(b) any director(s) of the Company be and is hereby authorised to allot and issue the Rights Shares pursuant to or in connection with the Rights Issue on the terms and conditions set out in the Circular and any director(s) of the Company be and is hereby authorised to make such exclusions or other arrangements in relation to the Excluded Shareholders and/or fractional entitlements as he/she may, at his/her absolute discretion, deem necessary, desirable or expedient, and the arrangement for application by the Shareholders (other than the Excluded Shareholders) for the Rights Shares in excess of their entitlements under the Rights Issue and the performance of all transactions contemplated under the Rights Issue, including but not limited to effect and implement the Underwriting Agreement and the transactions contemplated thereunder, be and is hereby approved, confirmed and ratified and any director(s) of the Company be and is hereby authorised to do all acts, deeds and things and to sign, seal and execute all documents as he/she may, at his/her absolute discretion, deem necessary, desirable or expedient to carry out or to give effect to the Rights Issue and any or all transactions contemplated in this resolution."

2. "**THAT** the waiver (the "**Whitewash Waiver**") granted or to be granted by the Executive (as defined in the Circular, which term is defined in the ordinary resolution numbered 1 set out in the notice convening this meeting) or any delegate of the Executive to Beijing Capital (Hong Kong) Limited as underwriter (the "**Underwriter**") pursuant to Note 1 on dispensations from Rule 26 of the Hong Kong Code on Takeovers and Mergers (the "**Takeovers Code**") in respect of the obligation on the part of the Underwriter to make a mandatory general offer for all the issued shares of the Company other than those already owned or agreed to be acquired by the Underwriter and the parties acting in concert with it under Rule 26.1 of the Takeovers Code, as a result of the subscription of any excess Rights Shares (as defined in the Circular) allocated to the Underwriter under the excess application made by the Underwriter or the taking up of the Underwritten Shares (as defined in the Underwriting Agreement, which term is defined in the ordinary resolution numbered 1 set out in the notice convening this meeting) pursuant to the terms of the Underwriting Agreement be and is hereby approved and THAT any one director of the Company be and is hereby authorized to do all acts, deeds and things and to sign and execute all documents as he/she may, at his/her absolute discretion, deem necessary, desirable or expedient to carry out or to give effect to any matters relating to or in connection with the Whitewash Waiver."

3. "**THAT** subject to the granting of the written approval from the Executive (as defined in the Circular), or any delegate of the Executive pursuant to Rule 25 of the Takeovers Code and the satisfaction of any condition attached to such consent and, where necessary, other consents in respect of the Set-Off Arrangement (as defined in the Circular) including but not limited to the Stock Exchange's (as defined in the Circular) approval on the alteration of the terms of the Convertible Note I (as defined in the Circular), the proposed Set-Off Arrangement in connection with the set off of the outstanding principal amount of the Convertible Note I in the principal amount of HK$488,000,000 issued by the Company on 11 December 2009 and with an outstanding principal amount of HK$177,000,000 as at Latest Practicable Date for settlement of the total subscription price of the Rights Shares to be subscribed under the Rights Issue by the Underwriter up to HK$177,000,000 and the transactions contemplated thereunder, including but not limited to the necessary variation and alteration of the terms and conditions of the Convertible Note I to allow the Company to redeem the Convertible Note I to effect the Set-Off Arrangement, be and are hereby approved, confirmed and ratified and any director(s) be and is hereby authorised to do all such things and acts as he/she may in his/her discretion consider as necessary, expedient or desirable for the purpose of or in connection with the implementation of the Set-Off Arrangement and the transactions contemplated thereunder, including but not limited to sign, seal, execute, perfect, deliver all such documents and do all things and acts as he/she considers necessary or expedient in his/her opinion to implement and/or give effect to the Set-off Arrangement and the transactions contemplated thereunder, including but not limited to the necessary variation and alteration of the terms and conditions of the Convertible Note I."

By order of the Board
New Environmental Energy Holdings Limited
Yu Chang Jian
Chairman

Hong Kong, 19 April 2013

Principal Office:
Unit 1613–1618, 16/F.,
Bank of America Tower,
12 Harcourt Road,
Central, Hong Kong

Notes:

1. Any member of the Company entitled to attend and vote at the meeting is entitled to appoint one or, where that member holds two or more shares, more proxies to attend and vote instead of him. A proxy need not be a shareholder of the Company.

2. To be valid, a proxy form, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of that power or authority, must be deposited at the branch share registrar and transfer office of the Company in Hong Kong, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong not less than 48 hours before the time fixed for the holding of the meeting or any adjournment thereof.

3. Where there are joint holders of any ordinary share of the Company, any one of such holders may vote at the meeting, in person or by proxy, in respect of such share as if he or she was solely entitled thereto, but if more than one of such holders be present at the meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding. Several executors or administrators of a deceased shareholder in whose name any share stands shall for this purpose be deemed joint holders thereof.

4. In accordance with the Listing Rules or the Takeovers Code as defined in the circular of the Company dated 19 April 2013, Beijing Capital (Hong Kong) Limited, Waste Resources G.P. Limited and parties acting in concert with any of them and their respective associates shall abstain from voting in respect of the resolutions as set out above in this notice which shall be voted only by way of poll.