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 **Capital Environment 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.

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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.

CAPITAL ENVIRONMENT HOLDINGS LIMITED
首 創 環 境 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 03989)

PROPOSED RIGHTS ISSUE
ON THE BASIS OF ONE RIGHTS SHARE
FOR EVERY ONE SHARE HELD ON THE RECORD DATE;
APPLICATION FOR WHITEWASH WAIVER;
PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL;
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING

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 31 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 32 to 33 of this circular. A letter of advice from China Galaxy to the Independent Board Committee and the Independent Shareholders is set out on pages 34 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 8 June 2015. 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 4:30 p.m. on 2 June 2015. The last day of dealings in Shares on a cum-rights basis is therefore expected to be 29 May 2015. The Shares will be dealt with on an ex-rights basis from 1 June 2015.

A notice convening the EGM to be held at 11:00 a.m. on 27 May 2015 on Unit 1613–1618, 16/F, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong 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 Level 22, Hopewell Centre, 183 Queen's Road East, 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 1 June 2015. Dealings in the Rights Shares in the nil-paid form will take place from 11 June 2015 to 16 June 2015 (both days inclusive). If the conditions of the Rights Issue are not fulfilled and/or waived on or before 4:00 p.m. on 1 July 2015 (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 11 June 2015 to 16 June 2015 (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*

11 May, 2015

CONTENTS

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

"acting in concert"	has the meaning ascribed thereto in the Codes on Takeovers and Mergers and Share Buy-backs
"Announcement"	the announcement of the Company dated 21 April 2015 in relation to, among other things, the Rights Issue, the Whitewash Waiver, the Increase in Authorised Share Capital and the transactions contemplated thereunder
"associate(s)"	has the meaning ascribed thereto in the Listing Rules
"Beijing Capital"	北京首創股份有限公司 (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
"BC Water"	BC Water Investments Co., Ltd., a company incorporated with limited liability under the laws of British Virgin Islands and an indirect wholly-owned subsidiary of Beijing Capital
"Beijing Capital (HK)"	Beijing Capital (Hong Kong) Limited, a company incorporated with limited liability under the laws of Hong Kong and a controlling shareholder of the Company, holding approximately 49.01% of the issued share capital of the Company as at the Latest Practicable Date, and a wholly-owned subsidiary of Beijing Capital, which is held as to 54.32% by Beijing Capital Group
"Beijing Capital Group"	北京首都創業集團有限公司 (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 and its subsidiaries and a controlling shareholder of Beijing Capital
"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 and the transactions contemplated thereunder
"Company"	Capital Environment Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the Stock Exchange
"Convertible Bond"	The RMB denominated convertible bonds issued by the Company to Beijing Capital (HK), in the aggregate principal amount of the equivalent RMB amount HK$100,000,000 in two installments, where the first installment of HK$50 million was issued on 11 September 2012 and the second installment of HK$50 million was issued on 31 December 2012, the terms of which were amended pursuant to a supplemental deed dated 19 November 2014
"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 Increase in Authorised Share Capital 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"	Wednesday, 24 June 2015, 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
"Increase in Authorised Share Capital"	the increase in the authorised share capital of the Company from HK$600,000,000 divided into 6,000,000,000 Shares to HK$1,500,000,000 divided into 15,000,000,000 Shares by the creation of 9,000,000,000 new Shares to be proposed at the EGM
"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 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 and the transactions contemplated thereunder
"Independent Shareholders"	Shareholders other than (i) the Underwriter, Beijing Capital (HK), BC Water, any of their associates and parties acting in concert with any of them and (ii) Shareholders who are interested in or involved in the Rights Issue (save for the entitlements under the Rights Issue), the Underwriting Agreement and/or the Whitewash Waiver
"Last Trading Day"	2 April 2015, being the last trading day of the Shares prior to the release of the Announcement
"Latest Practicable Date"	8 May 2015, being the latest practicable date for the purpose of ascertaining certain information for inclusion herein
"Latest Time for Acceptance"	4:00 p.m. on Wednesday, 24 June 2015 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 Wednesday, 1 July 2015 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 Beijing Capital (HK) as at the date of the Underwriting Agreement, being 2,318,918,286 Shares
"Prospectus"	the prospectus to be issued to the Shareholders containing details of the Rights Issue
"Posting Date"	Tuesday, 9 June 2015 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"	Monday, 8 June 2015 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 4,731,504,664 Rights Shares at the Subscription Price on the basis of one Rights Share for every one existing Share 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
"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
"Shareholder(s)"	holder(s) of Share(s)
"Share Options"	the outstanding options to subscribe for 2,703,288 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
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription Price"	the subscription price of HK$0.45 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"	BCG Chinastar International Investment Limited, a company incorporated with limited liability, a wholly-owned subsidiary of Beijing Capital Group and the underwriter for the Rights Issue
"Underwriting Agreement"	the underwriting agreement dated 21 April 2015 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 2,389,376,378 Rights Shares but not more than 2,392,079,666 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, Beijing Capital (HK) and BC Water to make a general offer for all the issued Shares not already owned or agreed to be acquired by the Underwriter, Beijing Capital (HK) and BC Water which may otherwise arise as a result of the subscription of the Rights Shares by the Underwriter pursuant to the Underwriting Agreement and the allocation of applied excess Rights Shares to Beijing Capital (HK) and BC Water while they have taken up and accepted their rights entitlement under the Rights Issue
"%"	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)*
Despatch of Company's circular with notice of the EGM	Monday, 11 May 2015
Latest time for lodging proxy forms for the EGM	11:00 a.m. on Monday, 25 May 2015
Latest time for lodging transfers of Shares in order to qualify for attendance and voting at the EGM	4:30 p.m. on Tuesday, 26 May 2015
Register of members of the Company closed for the EGM	Wednesday, 27 May 2015
Record date for the EGM	Wednesday, 27 May 2015
EGM	11:00 a.m. on Wednesday, 27 May 2015
Announcement of results of the EGM to be published on the Stock Exchange website	Wednesday, 27 May 2015
Register of members of the Company re-opens	Thursday, 28 May 2015
Last day of dealings in Shares on a cum-rights basis	Friday, 29 May 2015
First day of dealings in Shares on an ex-rights basis	Monday, 1 June 2015
Latest time for lodging transfer of Shares in order to qualify for the Rights Issue	4:30 p.m. on Tuesday, 2 June 2015
Register of members of the Company closes for the Rights Issue (both days inclusive)	Wednesday, 3 June 2015 to Monday, 8 June 2015
Record date for the Rights Issue	Monday, 8 June 2015
Register of members of the Company re-opens	Tuesday, 9 June 2015
Despatch of the Rights Issue Documents	Tuesday, 9 June 2015
First day of dealings in nil-paid Rights Shares	9 a.m. on Thursday, 11 June 2015
Latest time for splitting of nil-paid Rights Shares	4:30 p.m. on Tuesday, 16 June 2015

Event	Date
Last day of dealings in nil-paid Rights Shares	4:00 p.m. on Friday, 19 June 2015
Latest time for acceptance of and payment for Rights Shares and for application and payment for excess Rights Shares	4:00 p.m. on Wednesday, 24 June 2015
Underwriting Agreement becoming unconditional	4:00 p.m. Wednesday, 1 July 2015
Announcement of results of allotment of the Rights Issue to be published on the Stock Exchange website	Thursday, 2 July 2015
Despatch of certificates for fully-paid Rights Shares and refund cheques on or before	Friday, 3 July 2015
Commencement of dealings in full-paid Rights Shares	9 a.m. on Monday, 6 July 2015

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 Thursday, 18 June 2015. 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.

CAPITAL ENVIRONMENT HOLDINGS LIMITED
首創環境控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 03989)

Executive Directors:
Mr. Yu Changjian *(Chairman)*
Mr. Cao Guoxian *(Chief Executive Officer)*
Mr. Liu Xiaoguang
Mr. Shen Jianping

Independent non-executive Directors:
Mr. Pao Ping Wing
Mr. Cheng Kai Tai, Allen
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

11 May, 2015

To the Shareholders and, for information only, the holders of the Share Options, the Warrants and the Convertible Bond

Dear Sir or Madam,

PROPOSED RIGHTS ISSUE ON THE BASIS OF ONE RIGHTS SHARES FOR EVERY ONE SHARES HELD ON THE RECORD DATE; APPLICATION FOR WHITEWASH WAIVER; PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL; AND NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

Reference is made to the Announcement in relation to, among other things, the Rights Issue and the Whitewash Waiver. It was announced that the Company proposed to raised not less than approximately HK$2.13 billion but not more than approximately HK$2.25 billion before expenses by issuing not less than 4,731,504,664 Rights Shares (assuming no outstanding Share Options and Convertible Bonds have been exercised/converted in full before the Record Date) but not more than 5,003,173,469 Rights Shares (assuming all outstanding Share Options and Convertible Bonds have been exercised/converted in full before the Record Date) by way of Rights Issue at the Subscription Price of HK$0.45 per Rights Share on the basis of one Rights Share for every one existing Share in issue and held by Qualifying Shareholders on the Record Date.

The Independent Board Committee comprising the independent non-executive Directors has been formed by the Company to advise the Independent Shareholders on the terms of the Rights Issue, the Whitewash Waiver and the transactions contemplated thereunder. China Galaxy has been appointed as the Independent Financial Adviser with approval of the Independent Board Committee 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 proposed Increase in Authorised Share Capital 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 and the transactions contemplated thereunder; and (iv) the notice of the EGM.

PROPOSED RIGHTS ISSUE

Issue statistics

Basis of the Rights Issue:	One Rights Share for every one existing Share held by the Qualifying Shareholders on the Record Date
Subscription Price:	HK$0.45 per Rights Share
Number of Shares in issue as at the Latest Practicable Date:	4,731,504,664 Shares
Maximum number of new Shares that may be issued upon full exercise/conversion of Share Options and Convertible Bonds:	271,668,805 Shares

Number of Rights Share:	Not less than 4,731,504,664 Rights Shares (assuming no outstanding Share Options and Convertible Bonds have been exercised/converted before the Record Date) but (i) not more than 5,003,173,469 Rights Shares (assuming all outstanding Share Options and Convertible Bonds held by Beijing Capital (HK) have been exercised/converted in full before the Record Date) and (ii) not more than 4,734,207,952 Rights Shares (assuming all outstanding Share Options have been exercised and no Convertible Bonds have been converted before the Record Date)
Number of Underwritten Shares:	Not less than 2,389,376,378 Rights Shares but (i) not more than 2,392,079,666 Rights Shares (assuming all outstanding Share Options and Convertible Bonds held by Beijing Capital (HK) have been exercised/converted in full before the Record Date) and (ii) not more than 2,392,079,666 Rights Shares (assuming all outstanding Share Options have been exercised and no Convertible Bonds have been converted before the Record Date)
Aggregate nominal value of Shares to be issued:	Not less than HK$473,150,466 but (i) not more than HK$500,317,347 (assuming all outstanding Share Options and Convertible Bonds held by Beijing Capital (HK) have been exercised/converted in full before the Record Date) and (ii) not more than HK$473,420,795 (assuming all outstanding Share Options have been exercised and no Convertible Bonds have been converted before the Record Date)
Enlarged issued share capital of the Company upon completion of the Rights Issue:	Not less than 9,463,009,328 Shares but (i) not more than 10,006,346,938 Shares (assuming all outstanding Share Options and Convertible Bonds held by Beijing Capital (HK) have been exercised/converted in full before the Record Date) and (ii) not more than 9,468,415,904 Shares (assuming all outstanding Share Options have been exercised and no Convertible Bonds have been converted before the Record Date)

The number of Rights Shares to be issued pursuant to the Rights Issue represents 100% of the existing issued share capital of the Company and 50% 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 and the Convertible Bonds on or before the Record Date.

Beijing Capital (HK) has irrevocably undertaken to the Company that (i) it will remain the beneficial and registered owner of the number of Principal Shares and no 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 shall exercise its excess rights at least to the extent that would cover the rights entitlements of BC Water, which is 23,210,000 Shares; and (iv) it will not dispose of or transfer or exercise any of the convertible rights under the Convertible Bonds held by it on or before the Final Acceptance Date.

If all the subscription rights and the conversion rights attaching to the Share Options and the Convertible Bonds 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 10,006,346,938 and the number of Rights Shares that may be issued pursuant to the Rights Issue is expected to be increased to 5,003,173,469.

Save for the Share Options and the Convertible Bonds, 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$0.45 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$0.45 per Rights Share represents:

(i) a discount of approximately 25.0% to the closing price of HK$0.60 per Share as quoted on the Stock Exchange on 2 April 2015, being the Last Trading Day;

(ii) a discount of approximately 15.1% to the average closing price of approximately HK$0.53 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 13.5% to the average closing price of approximately HK$0.52 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 15.1% to the theoretical ex-right price of approximately HK$0.53 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 16.7% to the closing price of HK$0.54 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and

(vi) a premium of approximately 1,566.7% to the audited consolidated net tangible asset value per Share of approximately HK$0.027 (based on the latest published audited net tangible asset value of the Group as at 31 December 2014 and 4,731,504,664 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 a number of factors including the pre-announcement trading performance of the Shares, discount rates of Subscription Price to pre-announcement trading levels, and the overall financing requirements of the Company. In particular, the Company and the Underwriter have considered (i) the closing price on 7 April 2015, the last trading day of Shares prior to the release of the Rights Issue announcement, (ii) the simple average of the preceding five, ten, twenty consecutive trading days closing prices, respectively, and (iii) the Subscription Price's respective discount rates to previous reference price points compared with the rights issue/open offer precedents announced by companies listed on the Stock Exchange since 1 January 2015.

In addition, the Company and the Underwriter considered the Company's overall upcoming financing needs in relations to the investment in ongoing projects and potential opportunities, repayment of borrowings (please refer to the "The Use Of Proceeds And Reasons For The Right Issue" of the Circular for further details) and general working capital. 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 (excluding the independent non-executive Directors who have formed their views after consulting the Independent Financial Adviser appointed by the Independent Board Committee) consider the terms of the Rights Issue, including the Subscription Price, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Conditions of the Rights Issue

The Rights Issue and the Underwriting Agreement 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 Increase in Authorised Share Capital by no later than the Posting Date;

(ii) the Rights Issue; and

(iii) the Whitewash Waiver;

in accordance with the Listing Rules and the Takeovers Code, as applicable;

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

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

(d) 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;

(e) 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;

(f) 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;

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

(h) 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

(i) the passing of the necessary resolution(s) by Beijing Capital Group to approve the entering of the Underwriting Agreement by Beijing Capital and the Underwriter; 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.

None of the above conditions can be waived. In the event of the conditions (a) to (i) above have not been fulfilled 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 "Underwriting Arrangements — 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.

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 pro-rata basis in proportion to the number of excess Rights Shares being applied for under each application.

No preference will be given to topping up odd lots to whole board lots. Shareholders who have been offered odd lots of the Rights Shares should note that there is no guarantee that such odd lots of the Rights Shares will be topped up to create whole board lots pursuant to applications for excess Rights Shares. 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 4:30 p.m. on 2 June, 2015.

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 3 July, 2015 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 Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong by 4:30 p.m. on Tuesday, 2 June, 2015. It is expected that the last day of dealings in the Shares on a cum-rights basis is Friday, 29 May, 2015 and the Shares will be dealt with on an ex-rights basis from Monday, 1 June, 2015.

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 purposes only on the same date.

Excluded Shareholders

If, at the close of business on the Record Date, any Shareholder's address on the register of members of the Company is in a place outside Hong Kong, such Overseas Shareholder may not be eligible to take part in the Rights Issue as the Rights Issue Documents will not be registered and/or filed under the applicable securities legislation of any jurisdictions other than Hong Kong. The Company will make enquiries pursuant to Rule 13.36(2)(a) of the Listing Rules as to the feasibility of extending the Rights Issue to the Overseas Shareholders (if any). If, after making such enquiry, the Board is of the opinion that it would be necessary or expedient 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 that place, not to offer the Rights Shares to the Overseas Shareholders, no provisional allotment of Rights Shares will be made to the Overseas Shareholders. Accordingly, the Rights Issue will not be extended to the Excluded Shareholders. The results of the enquiries and the basis of exclusion of the Overseas Shareholders will be included in the Prospectus.

For those Overseas Shareholders who are to be excluded from the Rights Issue, the Company will, subject to compliance with the relevant local laws, regulations and requirements, send copies of the Prospectus for information only to these Excluded Shareholders, but the Company will not send the PAL and EAF to such Excluded Shareholders.

Arrangements will be made for the Rights Shares which would otherwise have been provisionally allotted to the Excluded Shareholders to be sold in the market in their nil-paid form as soon as practicable after dealings in the nil-paid Rights Shares commence on the Stock Exchange and in any event before the last day for dealings in nil-paid Rights Shares if a premium (net of expenses) can be obtained. Net proceeds after deducting the expenses of sale (if any) will be kept by the Company for its own benefit. Any unsold Rights Shares which would otherwise have been provisionally allotted to the Excluded Shareholders will be available for excess application.

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 on Wednesday, 27 May, 2015 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 Wednesday, 3 June, 2015 to Monday, 8 June, 2015 (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

The use of proceeds

The estimated net proceeds of the Rights Issue will not be less than approximately HK$2.11 billion (assuming no outstanding Share Options and Convertible Bonds have been exercised/converted before the Record Date) and not more than HK$2.24 billion (assuming all outstanding Share Options and Convertible Bonds have been exercised/converted in full before the Record Date). The expenses in relation to the Rights Issue are estimated to be approximately HK$14.8 million.

The net proceeds of the Rights Issue is expected to be approximately HK$2.11 billion and that the proposed repayment is arms-length transaction and in normal commercial terms. The Company intends to apply the net proceeds of the Rights Issue in the following manner:

— approximately 28% (equivalent to approximately HK$0.59 billion) for the investment in ongoing projects in waste treatment and waste-to-energy projects in the PRC;

— approximately 22% (equivalent to approximately HK$0.46 billion) for the investment in potential acquisitions or investments in waste treatment and waste-to-energy projects in the PRC;

— approximately 40% (equivalent to approximately HK$0.85 billion) for the repayment of debts of the Group including shareholder's loans from Beijing Capital (HK) (which is the only shareholder provided loans to the Company) and a bank loan; and

— approximately 10% (equivalent to approximately HK$0.21 billion) for general working capital of the Group.

As at the Latest Practicable Date, 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.

Capital Environment will continue to maintain good growth situation through the "five-in-one" guiding ideology involving the adjustment, reform, development, innovation and management and apply the funds from the Rights Issue to the comprehensive cultivation of the existing projects. The Group plans to apply the proceeds from the Rights Issue for its ongoing projects as follows:

— approximately 7% (equivalent to approximately HK$0.15 billion) to settle the outstanding building construction costs for the household waste incineration power plant project in Quanling, Nanchang, Jiangxi province ("Nanchang Project") which has just commenced in operation and announced by the Company in its announcement dated 16 January 2015;

— approximately 9% (equivalent to approximately HK$0.19 billion) for constructing a new waste treatment plant (on top of the existing waste treatment plant) in the solid waste incineration power generation project in Huizhou, Guangdong province (the "Huizhou Project") as announced by the Company by announcements dated 19 August 2013 and 2 July 2014 and the circular dated 7 December 2013 to increase the total waste treatment capacity and to lower the overall operating costs;

— approximately 6% (equivalent to approximately HK$0.13 billion) in the building of an additional kitchen waste treatment plant in the kitchen waste treatment project located in Yangzhou, Jiangsu ("Yangzhou Project") as announced by the Company in its announcement dated 6 November 2013 and 17 November 2013 in view of the growing demand of kitchen waste treatment and the utilization rate of the existing treatment plant; and

— approximately 6% (equivalent to approximately HK$0.12 billion) for the construction of an additional solid waste landfill in the solid waste landfill project in Huludao, Liaoning province ("Huludao Project") as announced by the Company in its announcement dated 15 September 2014 to further increase the capacity and proceeding time for the Group's existing solid waste landfill project.

The Group actively explored merger and acquisition opportunities in all areas of the environmental protection and alternative energy industry, such as the solid waste incineration and kitchen recycling projects to keep up with the rapid development and continue to reinforce its leading position in the industry. As at the Latest Practicable Date, the Company has identified potential merger and acquisition or investment opportunities which are under negotiation, where the Company is planning to invest in at least two to three more potential projects in the future in the aggregate investment amount of approximately HK$400 to 500 million, including another new kitchen waste treatment project in Hangzhou with the estimated initial investment of HK$187.5 million and that the potential investment/acquisition opportunities will not involve the purchase of assets from the Underwriter's group. For the implementation of the Group's business development strategies both within and outside the PRC, in addition to further investment in ongoing projects, the Group will continue to explore strategic investments opportunities, including but not limited joint venture and merger and acquisition opportunities in all areas of the environmental protection and alternative energy industry, with various partners, including third party partners and the Beijing Capital.

The proceeds of the Rights Issue shall be used for the repayment of the Group's debts, including:

(a) two fixed-rate short-term loans of HK$220,000,000 and HK$150,000,000 with Beijing Capital (HK) to be due in October 2015 and September 2015 respectively;

(b) a fixed-rate short-term loan of US$8,000,000 (equivalent to approximately HK$62,000,000) with Beijing Capital (HK) which is repayable on demand;

(c) three fixed-rate loans with Beijing Capital (HK) of RMB40,000,000, RMB21,000,000 and RMB36,000,000 (equivalent to approximately HK$50,000,000, HK$26,250,000 and HK$45,000,000 respectively) which are repayable on demand; and

(d) a short term bank loan of HK$372,000,000 due in November 2015.

In addition, the Company will utilize the funds to improve the debts structure so as to reduce its debt ratio and improve the Group's capital structure.

The Board considers that the Rights Issue is a prudent approach to provide equity funding for the Group's continuous investment in ongoing projects and long-term growth. The Rights Issue also allows all Qualifying Shareholders the opportunity to participate in the fund raising activity, which is in the interests of the Company and the Shareholders as a whole. 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 above, the Directors (excluding the independent non-executive Directors who have given their view after taking into account the advice of the Independent Financial Adviser) are of the view that the Rights Issue and the Whitewash Waiver are in the interests of the Group and the 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 date of the Announcement or as at 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
31 March 2014	Placing of unlisted warrants under general mandate	Net proceeds from the placing was approximately HK$3.94 million	Repayment of loans falling due and as general working capital of the Group	Have been used as intended

Save as mentioned above, the Company has not conducted any other fund raising activities in the past 12 months prior to the date of the Announcement or as at the Latest Practicable Date.

UNDERWRITING ARRANGEMENTS

Underwriting Agreement

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

Date:	21 April 2015, after trading hours
Underwriter:	BCG Chinastar International Investment Limited
Number of Rights Shares being underwritten by the Underwriter:	the Underwriter has conditionally agreed pursuant to the Underwriting Agreement to underwrite the Underwritten Shares on a fully underwritten basis for not less than 2,389,376,378 Rights Shares (assuming no outstanding Share Options and Convertible Bonds have been exercised/converted before the Record Date) but not more than 2,392,079,666 Rights Shares (assuming all outstanding Share Options and Convertible Bonds have been exercised/converted in full before the Record Date), subject to the terms and conditions of the Underwriting Agreement.
Conditions:	Please refer to the paragraph headed "Proposed Rights Issue — Conditions of the Rights Issue" in this circular.

Lock-up Provisions: The Company has undertaken to the Underwriter that for the period from the date of the Underwriting Agreement and ending on the date which is 90 days from the Closing Date, the Company shall not (except for allotment or issue of Shares (i) pursuant to the Rights Issue; (ii) upon exercise of the outstanding Share Options; or (iii) upon conversion of the outstanding Convertible Bonds by the holders thereof):

(a) allot or issue or offer to allot or issue or grant any option, right or warrant (save for the Share Options or share awards granted to the Company's employees) to subscribe (either conditionally or unconditionally, or directly or indirectly, or otherwise) any Shares or any interests in Shares or any securities convertible into or exercisable or exchangeable for or substantially similar to any Shares or interest in Shares;

(b) buy back, cancel, retire, reduce, redeem, re-purchase, purchase or otherwise acquire any Shares;

(c) agree (conditionally or unconditionally) to enter into or effect any such transaction with the same economic effect as any of the transactions described in paragraphs (a) and (b) above; or

(d) announce any intention to enter into or effect any such transaction described in paragraphs (a) to (c) above,

unless with the prior written consent of the Underwriter.

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 (excluding the independent non-executive Directors who will form their views after taking into account the advice of 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 Shareholders as a whole.

Beijing Capital (HK) is interested in: (i) an aggregate of 2,318,918,286 Shares, representing approximately 49.01% of the issued share capital of the Company as at the Latest Practicable Date; (ii) the Convertible Bonds, with outstanding principal amount of HK$78,000,000 as at the Latest Practicable Date.

Beijing Capital (HK) 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; (iii) it shall exercise its excess rights at least to the extent that would cover the rights entitlements of BC Water, which is 23,210,000 Shares; and (iv) it will not dispose of or transfer or exercise any of the convertible right under the Convertible Bonds held by it on or before the Final Acceptance Date.

In the event that Beijing Capital (HK) is allocated with excess Rights Shares to the effect that Beijing Capital (HK) and BC Water shall hold over 50.1% of the entire issued share capital of the Company as enlarged by the Rights Shares to be issued under the Rights Issue, Beijing Capital (HK) shall transfer the number of Shares in excess of such 50.1% of the issued share capital of the Company to the Underwriter at the Subscription Price plus any related translation cost after the completion of the Rights Issue.

The Underwriter is a wholly-owned subsidiary of Beijing Capital Group, which in turns holds 54.32% interests in Beijing Capital, which owns the entire issued share capital Beijing Capital (HK).

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 focal 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 Group , 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 and holds 54.32% interest in Beijing Capital which is a company listed on the Shanghai Stock Exchange and holds the entire issued share capital of Beijing Capital (HK). The Underwriter is principally engaged in investments.

INTENTION OF THE COMPANY

As at the Latest Practicable Date, the Company has not (a) had any agreement, arrangement, understanding, intention or negotiation (concluded or otherwise) about any disposal/termination/scaling-down of the existing business of the Group; and (b) proposed to make changes to the Board.

The Group will continue to look for possible investment opportunities in order to expand the source of income and prospects of the Group. As at the Latest Practicable Date, no specific investment target was identified, no definitive agreement had been entered into, nor has any form of involvement been determined. Nevertheless, should any potential investment opportunities arise, the Company may consider further fund raising if needed. Appropriate announcement will be made as and when necessary in accordance with the Listing Rules.

The Company considers that the Rights Issue is favourable to the Group for reasons as set out under the section headed "The Use of Proceeds and Reasons for the Rights Issue" in this circular, and has no intention to introduce any material change to the existing businesses of the Group, no intention to re-deploy the fixed assets of the Group other than in the ordinary course of business and has the intention to continue employment of the Group's employees.

SHAREHOLDING IN 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 at 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:

(i) Assuming no exercise of Share Options and the Convertible Bonds on or before the Record Date

Assuming no new shares (other than the Rights Shares) will be issued and no repurchase of Shares on or before the completion of the Rights Issue:

	As at the Latest Practicable Date		Immediately after completion of the Rights Issue assuming full acceptance by Qualifying Shareholders		Immediately after completion of the Rights Issue assuming no acceptance by Qualifying Shareholders (other than Beijing Capital (HK) and BC Water)	
	No. of shares	*Approximate percentage*	*No. of shares*	*Approximate percentage*	*No. of shares*	*Approximate percentage*
Shareholders						
Beijing Capital (HK) *(Note 1, 2)*	2,318,918,286	49.01%	4,637,836,572	49.01%	4,661,046,572	49.26%
BC Water *(Note 2)*	23,210,000	0.49%	46,420,000	0.49%	23,210,000	0.25%
The Underwriter *(Note 1, 2)*	—	0.00%	—	0.00%	2,389,376,378	25.25%
Subtotal of the Underwriter and parties acting in concert with it *(Note 1)*	2,342,128,286	49.50%	4,684,256,572	49.50%	7,073,632,950	74.75%
Other Public Shareholders	2,389,376,378	50.50%	4,778,752,756	50.50%	2,389,376,378	25.25%
Total	4,731,504,664	100.00%	9,463,009,328	100.00%	9,463,009,328	100.00%

Notes:

(1) Beijing Capital (HK) holds 2,318,918,286 Shares and 268,965,517 Shares are issuable upon conversion of the Convertible Bonds. Beijing Capital (HK) has undertaken that it will not dispose of or transfer or exercise any of the convertible rights under the Convertible Bonds held by it on or

before the Final Acceptance Date. Pursuant to the underwriting arrangement, Beijing Capital (HK) has undertaken to take up and accept its rights entitlements and to exercise its excess rights to at least cover the rights entitlements of BC Water.

(2) Beijing Capital (HK) and BC Water, both wholly-owned by Beijing Capital, together with the Underwriter, wholly-owned by Beijing Capital Group, the controlling shareholder of Beijing Capital, are parties acting in concert.

(ii) Assuming new Shares have been issued on or before the Record Date pursuant to the full exercise of all outstanding Share Options and the full exercise of all the conversion rights attaching to the Convertible Bonds on or prior to the Latest Lodging Date, but otherwise no other Shares (other than the Rights Shares) are issued and no repurchase of Shares on or before the completion of the Rights Issue.

Assuming new shares have been issued on or before the Record Date pursuant to the full exercise of all outstanding Share Options and Convertible Bonds

	As at the Latest Practicable Date		After the full exercise of all outstanding Share Options and Convertible Bonds on or before the Record Date		Immediately after completion of the Rights Issue assuming full acceptance by Qualifying Shareholders		Immediately after completion of the Rights Issue assuming no acceptance by Qualifying Shareholders (other than Beijing Capital (HK) and BC Water)	
	No. of shares	*Approximate percentage*	*No. of shares*	*Approximate percentage*	*No. of shares*	*Approximate percentage*	*No. of shares*	*Approximate percentage*
Shareholders								
Beijing Capital (HK) *(Note 1, 2)*	2,318,918,286	49.01%	2,318,918,286	46.35%	4,637,836,572	46.35%	4,658,634,296	46.56%
	—	0.00%	268,965,517	5.38%	537,931,034	5.38%	540,343,310	5.40%
BC Water *(Note 2)*	23,210,000	0.49%	23,210,000	0.46%	46,420,000	0.46%	23,210,000	0.23%
The Underwriter *(Note 1, 2)*	—	0.00%	—	0.00%	—	0.00%	2,392,079,666	23.91%
Subtotal of the Underwriter and parties acting in concert with it	2,342,128,286	49.50%	2,611,093,803	52.19%	5,222,187,606	52.19%	7,614,267,272	76.09%
Other Share Options holders *(Note 3)*	—	0.00%	2,703,288	0.05%	5,406,576	0.05%	2,703,288	0.03%
Other Public Shareholders	2,389,376,378	50.50%	2,389,376,378	47.76%	4,778,752,756	47.76%	2,389,376,378	23.88%
Sub-total of public float	2,389,376,378	50.50%	2,392,079,666	47.81%	4,784,159,332	47.81%	2,392,079,666	23.91%
Total	4,731,504,664	100.00%	5,003,173,469	100.00%	10,006,346,938	100.00%	10,006,346,938	100.00%

Notes:

(1) Beijing Capital (HK) holds 2,318,918,286 Shares and 268,965,517 Shares are issuable upon conversion of the Convertible Bonds. This table is for illustration purpose only as Beijing Capital (HK) has undertaken that it will not dispose of or transfer or exercise any of the convertible rights under the Convertible Bonds held by it on or before the Final Acceptance Date. Pursuant to the underwriting arrangement, Beijing Capital (HK) has undertaken to take up and accept its rights entitlements and to exercise its excess rights to at least cover the rights entitlements of BC Water.

(2) Beijing Capital (HK) and BC Water, both wholly-owned by Beijing Capital, together with the Underwriter, wholly-owned by Beijing Capital Group, the controlling shareholder of Beijing Capital, are parties acting in concert.

(3) Other Share Options holders are independent third parties.

(iii) Assuming new Shares have been issued on or before the Record Date pursuant to the full exercise of all outstanding Share Options (but not the Convertible Bonds) on or prior to the Latest Lodging Date, but otherwise no other Shares (other than the Rights Shares) are issued and no repurchase of Shares on or before the completion of the Rights Issue.

Assuming new shares have been issued on or before the Record Date pursuant to the full exercise of all outstanding Share Options (but not the Convertible Bonds)

	As at the Latest Practicable Date		After the full exercise of all outstanding Share Options on or before the Record Date		Immediately after completion of the Rights Issue assuming full acceptance by Qualifying Shareholders		Immediately after completion of the Rights Issue assuming no acceptance by Qualifying Shareholders (other than Beijing Capital (HK) and BC Water)	
	No. of shares	*Approximate percentage*	*No. of shares*	*Approximate percentage*	*No. of shares*	*Approximate percentage*	*No. of shares*	*Approximate percentage*
Shareholders								
Beijing Capital (HK) *(Note 1, 2)*	2,318,918,286	49.01%	2,318,918,286	48.98%	4,637,836,572	48.98%	4,661,046,572	49.23%
BC Water *(Note 2)*	23,210,000	0.49%	23,210,000	0.49%	46,420,000	0.49%	23,210,000	0.25%
The Underwriter *(Note 1, 2)*	—	0.00%	—	0.00%	—	0.00%	2,392,079,666	25.26%
Subtotal of the Underwriters and parties acting in concert with it *(note 1)*	2,342,128,286	49.50%	2,342,128,286	49.47%	4,684,256,572	49.47%	7,076,336,238	74.74%
Other Share Options holders *(Note 3)*	—	0.00%	2,703,288	0.06%	5,406,576	0.06%	2,703,288	0.03%
Other Public Shareholders	2,389,376,378	50.50%	2,389,376,378	50.47%	4,778,752,756	50.47%	2,389,376,378	25.24%
Subtotal of public float	2,389,376,378	50.50%	2,392,079,666	50.53%	4,784,159,332	50.53%	2,392,079,666	25.26%
Total	4,731,504,664	100.00%	4,734,207,952	100.00%	9,468,415,904	100.00%	9,468,415,904	100.00%

Notes:

(1) Beijing Capital (HK) holds 2,318,918,286 Shares and 268,965,517 Shares are issuable upon conversion of the Convertible Bonds. Beijing Capital (HK) has undertaken that it will not dispose of or transfer or exercise any of the convertible rights under the Convertible Bonds held by it on or before the Final Acceptance Date. Pursuant to the underwriting arrangement, Beijing Capital (HK) has undertaken to take up and accept its rights entitlements and to exercise its excess rights to at least cover the rights entitlements of BC Water.

(2) Beijing Capital (HK) and BC Water, both wholly-owned by Beijing Capital, together with the Underwriter, wholly-owned by Beijing Capital Group, the controlling shareholder of Beijing Capital, are parties acting in concert.

(3) Other Share Options holders are independent third parties.

Scenario (ii) above is for illustration purposes only. The Company is expected to satisfy the minimum public float requirement pursuant to Rule 8.08 of the Listing Rules at all times.

ADJUSTMENTS TO OUTSTANDING SHARE OPTIONS AND CONVERTIBLE BONDS

The Rights Issue will lead to an adjustment to the conversion price under the Share Options and the Convertible Bond 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 date of the Announcement, 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 and the Whitewash Waiver.

WHITEWASH WAIVER

Beijing Capital (HK) and BC Water are parties acting in concert with the Underwriter and are beneficially interested in 2,342,128,286 Shares, representing approximately 49.50% of the issued share capital of the Company as at the date of the Announcement and Latest Practicable Date. If (i) the Underwriter is required to take up any Rights Shares pursuant to its underwriting commitment in connection with the Rights Issue; or (ii) Beijing Capital (HK) and BC Water have taken up and accepted their respective rights entitlement under the Rights Issue and allocated with excess Rights Shares which they applied for, the Underwriter and parties acting in concert with it, namely Beijing Capital (HK) and BC Water may trigger an obligation to make a mandatory offer under Rule 26.1 of the Takeovers Code. Based on the minimum of 4,731,504,664 Rights Shares proposed to be issued, upon the completion of the Rights Issue, assuming that (i) no Qualifying Shareholders (other than Beijing Capital (HK) and BC Water) take up any Rights Shares; and (ii) the number of issued Shares remain unchanged (with no exercise/conversion of outstanding Share Options and/or Convertible Bonds), the Underwriter pursuant to the Underwriting Agreement will be required to subscribe for 2,389,376,378 Rights Shares, which will result in the Underwriter and parties acting concert it, including Beijing Capital (HK) and BC Water be beneficially interested in 7,073,632,950 Shares, representing approximately 74.75% of the enlarged issued share capital of the Company upon completion of the Rights Issue. For illustration purpose only, based on the maximum of 5,003,173,469 Rights Shares proposed to be issued, upon completion of the Rights Issue, assuming that (i) no Qualifying Shareholders (other than Beijing Capital (HK) and BC Water) takes up any Rights Shares; and (ii) the number of issued Shares remains unchanged (save for the full exercise/conversion of outstanding Share Options and/or Convertible Bonds), the Underwriter pursuant to the Underwriting Agreement will be required to subscribe for 2,392,079,666 Rights Shares, which will result in the Underwriter and parties acting in concert with it, including Beijing Capital (HK) and BC Water beneficially interested in 7,614,267,272 Shares, representing approximately 76.09% 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.

In this regard, an application will be made by the Underwriter, Beijing Capital (HK) and BC Water to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeover Code. The Whitewash Waiver, if granted by the Executive, would 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 Rights Issue will lapse and will not proceed.

The Underwriter, Beijing Capital (HK), BC Water and parties acting in concert with them respectively and those who are involved in or interested in the Whitewash Waiver and their respective associates are required by the Listing Rules or the Takeovers Code to abstain from voting on the proposed resolution(s) approving the Rights Issue, the Whitewash Waiver and the transactions contemplated thereunder at the EGM. As at the Latest Practicable Date, the Underwriter did not hold any Shares and Beijing Capital (HK) and BC Water held 2,318,918,286 Shares (representing approximately 49.01% of the issued share capital of the Company) and 23,210,000 Shares (representing approximately 0.49% of the issued share capital of the Company), respectively. The register of members of the Company will be closed from Wednesday, 20 May 2015 to Thursday, 21 May 2015, to determine the identity of the Shareholders entitled to attend and vote at the EGM.

As at the Latest Practicable Date, save for as disclosed in this circular, (i) the Underwriter and parties acting in concert with it do not hold, control or have direction over any outstanding options, warrants, or any securities that are convertible into Shares or any derivatives in respect of securities in the Company, or hold any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company, nor has received any irrevocable commitment to vote for or against the underwriting arrangement or the Whitewash Waiver; (ii) there is no outstanding derivative in respect of securities in the Company entered into by the Underwriter or any person acting in concert with it; (iii) the underwriting arrangement is subject to the conditions of the underwriting agreement; (iv) there is no arrangement (whether by way of option, indemnity or otherwise) in relation to the shares of the Company or the Underwriter, which might be material to the underwriting arrangement; (v) there is no agreement or arrangement to which the Underwriter or any party acting in concert with it is a party which relates to circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the underwriting arrangement; (vi) the Underwriter and parties acting in concert with it have not borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company; and (vii) no other shareholder of the Company has any material interest in the Rights Issue or Whitewash Waiver and is not required to abstain from voting on the proposed resolutions for approving the Rights Issue, the Whitewash Waiver and the transactions contemplated thereunder at the EGM.

Except for the Rights Issue, none of the Underwriter, Beijing Capital (HK) and BC Water and parties acting in concert with it, has dealt in the Shares, outstanding options, derivatives, warrants or other securities convertible or exchangeable into Shares, during the six months prior to the date of the Announcement.

Shareholders and potential investors should be aware that there is a possibility that, upon completion of the Rights Issue, the Underwriter, Beijing Capital (HK), BC Water and parties acting in concert with them may hold more than 50% of the voting rights of the Company. Hence, the Underwriter, Beijing Capital (HK), BC Water and parties acting in concert with it may increase its holdings of voting rights of the Company without incurring any further obligation under Rule 26 of the Takeovers Code to make a general offer.

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.

PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

As at the Latest Practicable Date, the authorised share capital of the Company is HK$600,000,000 divided into 6,000,000,000 Shares, of which 4,731,504,664 Shares have been issued and allotted as fully paid. Subject to approval at the EGM, the Company intends to propose to the Shareholders the Increase in Authorised Share Capital. The authorised share capital of the Company will be increased to HK$1,500,000,000 divided into 15,000,000,000 Shares.

Condition of the Increase in Authorised Share Capital

The Increase in Authorised Capital is conditional upon the passing of an ordinary resolution by the Shareholders at the EGM approving the Increase in Authorised Share Capital.

GENERAL

The Rights Issue, the Whitewash Waiver, the Increase in Authorised Share Capital 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 (save for entitlements under the Rights Issue), the Underwriting Agreement, the Whitewash Waiver and/or the transactions contemplated thereunder (including the Underwriter, Beijing Capital (HK), BC Water, 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 and the transactions contemplated thereunder. As at the Latest Practicable Date, the Underwriter, Beijing Capital (HK), BC Water and parties acting in concert with it controlled the voting rights in respect of 2,342,128,286 Shares.

Subject to the Right Issue, the Whitewash Waiver, the Increase in Authorised Share Capital 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 the Posting Date.

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 27 May, 2015, at which ordinary resolutions will be proposed to approve the Rights Issue, the Whitewash Waiver and the transactions contemplated thereunder, and a special resolution will be proposed to approve the Increase in Authorised Share Capital 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 32 to 33 of this circular which contains its recommendation to the Independent Shareholders in relation to the Rights Issue, the Whitewash Waiver, and the transactions contemplated thereunder and the letter from the Independent Financial Adviser set out on pages 34 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 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
Capital Environment Holdings Limited
Yu Chang Jian
Chairman

CAPITAL ENVIRONMENT HOLDINGS LIMITED
首創環境控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 03989)

11 May, 2015

To the Independent Shareholders

Dear Sir or Madam,

PROPOSED RIGHTS ISSUE ON THE BASIS OF ONE RIGHTS SHARE FOR EVERY ONE SHARE HELD ON THE RECORD DATE AND APPLICATION FOR WHITEWASH WAIVER

We refer to the circular of the Company to the Shareholders dated 11 May, 2015 (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 and the transactions contemplated thereunder and to advise the Independent Shareholders as to the fairness and reasonableness of the Rights Issue, the Whitewash Waiver, 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, and the transactions contemplated thereunder. China Galaxy International Securities (Hong Kong) Co., Limited has been appointed as the Independent Financial Adviser with the approval of the Independent Board Committee 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 the Independent Financial Adviser as set out in the Circular which contains, inter alia, the Independent Financial Adviser's advice and recommendation to us and the Independent Shareholders regarding the terms and conditions of the Rights Issue, the Whitewash Waiver 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 the Independent Financial Adviser 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, 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 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, and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Independent Board Committee

Mr. Pao Ping Wing **Mr. Cheng Kai Tai, Allen** **Ms. Chan Yee Wah, Eva**
Independent non-executive Director

The following is the text from China Galaxy International Securities (Hong Kong) Co., Limited which sets out its advice 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

11 May 2015

To: The Independent Board Committee and
The Independent Shareholders of Capital Environment Holdings Limited

Dear Sir/Madam,

(I)PROPOSED RIGHTS ISSUE ON THE BASIS OF ONE RIGHTS SHARE FOR EVERY ONE SHARE HELD ON THE RECORD DATE; AND (II)APPLICATION FOR THE WHITEWASH WAIVER

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 and the Whitewash Waiver. Details of the transactions are set out in the "Letter from the Board" contained in the circular of the Company dated 11 May 2015 (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 21 April 2015, the Company announced that it proposed to issue not less than 4,731,504,664 Rights Shares (assuming no outstanding Share Options and Convertible Bonds have been exercised/converted before the Record Date) but not more than 5,003,173,469 Rights Shares (assuming all outstanding Share Options and Convertible Bonds have been exercised/converted in full before the Record Date) by way of Rights Issue at the subscription price of HK0.45 per Rights Share on the basis of one (1) Rights Share for every one (1) existing Share in issue and held by Qualifying Shareholders on the Record Date. The proposed Rights Shares Issue is intended to raise not less than approximately HK$2.13 billion but not more than HK$2.25 billion before expenses.

The Rights Issue is only available to the Qualifying Shareholders and is fully underwritten by BCG Chinastar International Investment 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.

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 date of the Announcement, the Rights Issue is conditional on the approval by the Independent Shareholders at the EGM by way of poll in accordance with Rule 7.19(6)(a) of the Listing Rules.

Whitewash Waiver

As at the Latest Practicable Date, Beijing Capital (HK), a wholly-owned subsidiary of Beijing Capital is a controlling Shareholder of the Company and BC Water, an indirect wholly-owned subsidiary of Beijing Capital, are parties acting in concert with the Underwriter and are beneficially interested in 2,342,128,286 Shares, representing approximately 49.50% of the issued share capital of the Company as at the date of the Announcement. If (i) the Underwriter is required to take up any Rights Shares pursuant to its underwriting commitment in connection with the Rights Issue; or (ii) Beijing Capital (HK) and BC Water have taken up and accepted their respective rights entitlement under the Rights Issue and allocated with excess Rights Shares which they applied for, the Underwriter and parties acting in concert with it may trigger an obligation to make a mandatory offer under Rule 26.1 of the Takeovers Code. For illustration purpose only, based on the minimum of 4,731,504,664 Rights Shares proposed to be issued, upon completion of the Rights Issue, assuming that (i) no Qualifying Shareholders (other than Beijing Capital (HK)and BC Water) take up any Rights Shares; and (ii) the number of issued Shares remains unchanged (with no exercise/conversion of outstanding Share Options and/or Convertible Bonds), the Underwriter pursuant to the Underwriting Agreement will be required to subscribe for 2,389,376,378 Rights Shares, which will result in the Underwriter and parties acting in concert it, including Beijing Capital (HK) and BC Water be beneficially interested in 7,073,632,950 Shares, representing approximately 74.75% of the enlarged issued share capital of the Company upon completion of the Rights Issue. For illustration purpose only, based on the maximum 5,003,173,469 Rights Shares proposed to be issued, upon completion of the Rights Issue, assuming that (i) no Qualifying Shareholders (other than Beijing Capital (HK) and BC Water) takes up any Rights Shares; and (ii) the number of issued Shares remains unchanged (save for the full exercise/conversion of outstanding Share Options and/or Convertible Bonds), the Underwriter pursuant to the Underwriting Agreement will be required to subscribe for 2,392,079,666 Rights Shares, which will result in the Underwriter and parties acting in concert with it, including Beijing Capital (HK) and BC Water be beneficially interested in 7,614,267,272 Shares, representing approximately 76.09% 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.

In this instance, an application has been made by the Underwriter, Beijing Capital (HK) and BC Water to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeover Code. The Whitewash Waiver, if granted, would 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 Underwriting Agreement will not become unconditional and the Rights Issue will not proceed.

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 and Ms. Chan Yee Wah, Eva, has been formed to advise the Independent Shareholders on whether the terms and conditions of the Rights Issue, the Underwriting Agreement and the Whitewash Waiver are fair and reasonable and how to vote on the relevant resolutions. All members of the Independent Board Committees have confirmed to the Company that they are independent with respect to the Rights Issue, the Underwriting Agreement and the Whitewash Waiver and are thus suitable to give advice and recommendations to the Independent Shareholders at the EGM.

Our appointment as the Independent Financial Adviser to the Independent Board Committees and the Independent Shareholders has been approved by the Independent Board Committees. We do not by this letter warrant the merits of the above transactions other than to form an opinion for the purpose of the Listing Rules and the Takeovers Code. Our role as the Independent Financial Adviser is to give our opinions and recommendations to the Independent Board Committees and the Independent Shareholders as to whether or not (i) the Underwriting Agreement were entered into in the ordinary and usual course of the business of the Company and on normal commercial terms; (ii) the Rights Issue, the Underwriting Agreement and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the relevant resolutions to approve the Rights Issue, the Underwriting Agreement, the Whitewash Waive 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. We do not have any pervious financial adviser and/or independent financial adviser engagement with the Company in the past two years and up to the Latest

Practicable Date which may affect our independence to give our opinions and recommendations to the Independent Board Committees and the Independent Shareholders.

BASIS OF OUR ADVICE

In formulating our opinion to the Independent Board Committees and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to 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 statements, information, opinions and representations contained or referred to in the Circular and all information and representations provided by the Directors and the management of the Company, for which they are solely responsible, are true and accurate at the time when they were provided and continue to be so as the Latest Practicable Date. Shareholders will be notified of material changes as soon as possible, if any, to the information and representations provided and made to us after the Latest Practicable Date and up to and including the date of the EGM. 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 (other than that in relation to the Underwriter and parties acting in concert with it) has been supplied by the Directors and the management of the Company, 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. 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. 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 to the Independent Board Committee and the Independent Shareholders in respects of the Rights Issue, the Underwriting Agreement and the Whitewash Waiver, we have taken into consideration the following principal factors and reasons:

I. BACKGROUND INFORMATION OF THE COMPANY

(a) Principal business

The Group is principally 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, especially 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.

(b) Historical financial information

The following table summarises the audited consolidated financial results of the Group for each of the two financial years ended 31 December 2013 and 2014 which is extracted from "Financial Information of the Group" set out in Appendix I to the Circular:

	For the year ended 31 December	
	2014	**2013**
	HK$'000	*HK$'000*
	(Audited)	(Audited)
Revenue	963,608	282,411
Gross profit	122,545	143,087
Loss before tax	(57,449)	(44,408)
Loss for the year	(62,529)	(42,562)

As shown in the above table, the revenue of the Group increased substantially from approximately HK$282.4 million for the year ended 31 December 2013 to approximately HK$963.6 million for the year ended 31 December 2014 which was mainly because the Group recognised (i) revenue from construction services under service concession arrangements of approximately HK$505.4 million (2013: HK$202.8 million) by reference to the stage of completion of the construction work (ii) revenue from operation services under service concession arrangements of approximately HK$60.2 million (2013: HK$16.5 million); and (iii) revenue from the provision of dismantling services of approximately HK$322.4 million (2013: Nil). The Group's gross profit margin in 2014 decreased to approximately 12.7% from 50.7% in 2013. It was mainly because the dramatic increase in cost of sales for the year ended 31 December 2014 for approximately HK$701.7 million or 503.7% when compared to 2013, primarily due to the increase in the contract cost recognised for construction of waste treatment business. The increase of the loss for the year was mainly attribute able to (i) an impairment loss on deposits paid for construction of infrastructure in service concession arrangements of approximately HK$104.9 million; (ii) the increase in administrative expenses in related to the newly acquired subsidiaries; and (iii) the increase in finance costs from approximately HK$55.9 million for the year ended 31 December 2013 to approximately HK$67.3 million for the year ended 31 December 2014.

The following table summarises the audited consolidated financial position of the Group as at 31 December 2013 and 2014 which is extracted from"Financial Information of the Group" as set out in Appendix I to the Circular:

	As at 31 December	
	2014	**2013**
	HK$'000	*HK$'000*
	(Audited)	(Audited)
Total non-current assets	2,105,519	1,152,302
Total current assets	886,601	960,622
Total current liabilities	1,609,421	819,440
Net current (liabilities)/assets	(722,820)	141,182
Total non-current liabilities	690,159	613,980
Total borrowings	1,662,832	991,122
Net assets	692,540	679,504

As 31 December 2014, the Group's current liabilities exceed its current assets by approximately HK$722.8 million mainly due to (i) the increase of trade payables from approximately HK$30.0 million as at 31 December 2013 to approximately HK$132.3 million as at 31 December2014 mainly to the increase on the purchases of goods; and (ii) the substantial increase in total borrowings from approximately HK$991.1 million as at 31 December 2013 to approximately HK$1,662.8 million as at 31 December 2014 which was attributable to (a) the increase on bank borrowings from approximately HK$651.9 million as at 31 December 2013 to approximately HK$1,107.1 million 31 December 2014; and (b) the increase in other loans from approximately HK$339.2 million as at 31 December 2013 to approximately HK$555.7 million as at 31 December 2014.

(c) Business overview and future prospects

As stated in the result announcement of the Company for the year ended 31 December 2014 ("2014 Annual Result"), the State "12th Five-Year Plan" has identified the energy conservation and environmental protection industry as top priority among the seven strategic emerging industries, further, relevant government authorities in the PRC issued a series of guidelines and policies for environmental governance in 2013, including the Action Plan on Prevention and Control of Air Pollution 2013-2017 and Ten Measures to Prevent and Control Air Pollution. The development blueprint for Building a Beautiful China laid out during the 18th National Congress of the Chinese Communist Party, in particular, has placed an unprecedentedly significant emphasis on the environmental protection industry. The Directors believe that the PRC government will further step up its policy support and capital investments in environmental governance. In addition, the demand for environmental protection and alternative energy will continue to increase across the country, providing the Group with enormous market opportunities and development potentials.

During 2014, projects of the Group continued to progress steadily. Benefiting from favorable national policies and growing market demand, the Group has made remarkable achievements in operating results, market expansion, internal management, fund raising and financing, and the extension of its business chain. Leveraging on its leading technology in environmental protection and alternative energy as well as highly effective management, the Group stood out from the keen competition by continuously tapping into new markets, hence laying a solid foundation for maintaining and reinforcing its leading position in the industry. In 2014, the Group successfully acquired 7 environmental protection projects with a total investment of approximately RMB1,800 million, and continued to reinforce its leading position in the industry. Meanwhile, the Group also enhanced its co-operation with governments at all levels by entering into strategic co-operation agreements with provincial and municipal governments in Heilongjiang, Shanxi, Jiangsu, fostering investments in numerous new projects in new regions.

According to 2014 Annual Result, as of 31 December 2014, the Group secured a total of 18 environmental protection and alternative energy projects (including six waste-to-energy projects, three waste landfill projects, three anaerobic digestion technology treatment projects, one waste collection, storage and transportation project, two dismantling waste electronic appliances projects and three biomass resources electricity generation projects) with a total investment of approximately RMB5,100 million. Projects which had completed construction involved a total investment of approximately RMB1,700 million, while those which are under construction and at preparatory stage involved a total investment of approximately RMB3,400 million, respectively. The facilities are designed with an aggregate annual household waste processing capacity of approximately 4.6 million tonnes and annual electrical and electronic equipment dismantling volume of approximately 3.2 million units.

As confirmed by the management of the Group, with stronger supporting policies from the PRC government and the continued comprehensive support from the substantial shareholders, 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.

II. REASONS FOR THE RIGHTS ISSUE AND USE OF PROCEEDS

The Directors are of the view 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 development of the waste treatment industry. Based on the minimum number of 4,731,504,664 Rights Shares proposed to be issued, the estimated net proceeds of the Rights Issue will be approximately HK$2.11 billion. The Company intends to apply the net proceeds from the Rights Issue as to (i) approximately 28% (equivalent to approximately HK$0.59 billion) for the investment in ongoing projects in waste treatment and waste-to-energy projects in the PRC; (ii) approximately 22% (equivalent to approximately HK$0.46 billion) for the investment in potential acquisitions or investments in waste treatment and waste-to-energy projects in the PRC; (iii) approximately 40% (equivalent to approximately HK$0.85 billion) for the repayment of debts of the Group owed to Beijing Capital (HK) (which is the only shareholder provided loans to the Company) and a bank loan; and (iv) approximately 10% (equivalent to approximately HK$0.21 billion) for the general working capital of the Group.

(a) Investment in ongoing projects and future investments

As stated in the "Letter from the Board" of this Circular, approximately 28% of the estimated net proceeds of the Rights Issue (equivalent to approximately HK$0.59 billion in the minimum fund raising case) will be applied for the investment in ongoing projects in waste treatment and waste-to-energy projects in the PRC in the following manner:

Nanchang Project

Having reviewed the relevant construction contract and discussed with the management of the Company, the outstanding building construction cost of the household waste incineration power plant project in Quanling, Nanchang, Jiangxi province ("Nanchang Project") is expected to be approximately HK$0.15 billion.

According to the announcement of the Company dated on 16 January 2015, Nanchang Project, which is wholly-owned by the Company marked the first solid waste incineration power generation project in Jiangxi Province and has formally put into operation. In order to avoid any delay payment, the Directors are of the view that the Company should apply the net proceeds of the Rights Issue to settle the outstanding construction cost pursuant to the relevant construction contract.

Huizhou Project

Based on our discussion with the management of the Group, it is the intention of the Group to apply the net proceeds of approximately HK$0.19 billion for constructing a new waste treatment plant (on top of the existing waste treatment plant) in Huizhou Guanghui Energy Company Limited. The Company had acquired 97.85% interest of Huizhou Guanghui Energy Company Limited in 2014, the new investment is expected to increase the total waste treatment capacity and to lower the overall operating costs.

Yangzhou Project

As advised by the management of the Group, in view of the growing demand of kitchen waste treatment and the utilization rate of the existing treatment plant in Yangzhou Capital Solid Environmental Development Limited which the Company has acquired 100% interest of it in 2013. It is in the interests of the Company to invest for approximately HK$0.13 billion to build an additional kitchen waste treatment plant in Yangzhou.

Huludao Project

In order to further increase the capacity and proceeding time for the Group's existing solid waste landfill project located in Huludao, Liaoning, the management of the Group intend to construct an additional solid waste landfill for approximately HK$0.12 billion via Chongqing Kangte Environmental Industrial Holdings Limited, a wholly-owned subsidiary which the Company has acquired 100% equity interests of it in 2014.

Considering the above, we are of the view that given the growing market demand in waste treatment industry and with the positive support from governments policies, the investment in these ongoing projects (with most of them have commenced in operation already) will expect to generate a reasonable investment return and therefore is in the interests of the Company and the Shareholders as a whole. We have reviewed the relevant business plans provided by the management for the aforementioned ongoing projects, in view of these ongoing projects will be expected to generate positive investment returns in long-run, the coming future. We concur with the Directors that it is justifiable for the Company to apply the net proceeds of the Rights Issue to the ongoing projects and potential acquisitions or investments in waste treatment and waste-to-energy projects in the PRC.

According to the Directors, the Company has been actively looking for new investments and/or acquisitions in the waste treatment and waste-to-energy projects in the PRC. In addition to the total investment of approximately HK$0.59 billion for ongoing projects as mentioned above, the Company is planning to invest for at least two to three more potential projects in the future in the aggregate investment amount of approximately HK$400 to 500 million, including another new kitchen waste treatment project in Hangzhou with the estimated initial investment of HK$187.5 million which the Company is still in preliminary negotiation with the local government and no official agreement has been entered into as at the Latest Practicable Date. In considering the above, we believe that using 28% and 22% of the net proceeds of Rights Issue for the investment in ongoing projects and potential acquisitions or investments, respectively, in waste treatment and waste-to-energy projects are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

(b) Repayment of borrowings

As stated in the "Letter from the Broad" in this Circular, approximately 40% of the estimated net proceeds of the Rights Issue (equivalent to approximately HK$0.85 billion in the minimum fund raising case) will be applied to repay:

(a) two fixed-rate short-term loans of HK$220 million and HK$150 million with Beijing Capital (HK) to be due in October 2015 and September 2015 respectively;

(b) a fixed-rate short-term loan of US$8.0 million (equivalent to approximately HK$62.0 million) with Beijing Capital (HK) which is repayable on demand;

(c) three fixed-rate loans with Beijing Capital (HK) of RMB40.0 million, RMB21.0 million and RMB36.0 million (equivalent to approximately HK$50.0 million, HK$26.3 million and HK$45.0 million respectively) which are repayable on demand; and

(d) a short term bank loan of HK$372.0 million due in November 2015.

In view of the above, the total repayment of the debts will exceed the HK$0.85 billion net proceeds for repayment by approximately HK$75.3 million. As advised by the management of the Company, the remaining repayment balances will be financed through the Company's internal resources. We consider that it is in the interests of the Company and the Shareholders to utilize the net proceeds from the Rights Issue to reduce the debt liabilities and to improve the Company's existing debts and capital structure.

III. OTHER FINANCING ALTERNATIVES

The Board has considered other fund raising alternatives before resolving to the Rights Issue, including but not limited to bank borrowings, share placement and open offer. In the view that new bank borrowings would result in additional interest burden and higher gearing ratio of the Group, share placement may necessarily dilute the shareholding in the Company of the existing Shareholders; and although both open offer and rights issue would allow Shareholders to maintain their proportionate shareholding interests in the Company, a rights issue would also allow those Shareholders who do not want to participate in the fund raising of the Company to dispose of their rights shares entitlements in the market in nil-paid form, the Board considers raising funds by way of the Rights Issue is in the best interests of the Company and Shareholders as a whole.

Having considered various financing alternatives available to the Group, the Board believes that the Rights Issue is the most appropriate method of fund raising and in the best interest of the Company and the Shareholders, as opposed to other alternative means of financing. We concur with the Board that rights issue is a fair and reasonable fund raising method for the Company.

Although shareholding of Non-Qualifying Shareholders and Qualifying Shareholders who do not participate in the Rights Issue will be diluted substantially, the Board considers that all Qualifying Shareholders are being offered the equal opportunity to make an informed decision whether to participate in the Rights Issue and all Shareholders may be benefited by the potential future growth of the Group. Since the Rights Issue will enable the Company to raise funds for diversifying to a more liquid and easily realised securities investment business from its garment manufacturing and trading business, which is loss-making and recovery of which is foreseeable to be slow under current global market condition; and the Company will ensure that investment policy will be in place and sufficient expertise in securities investment will be acquired through establishment of a investment committee comprising members with relevant experience in securities investment and/or financial management, it is in the interests of the Company and Shareholders as a whole to conduct such fund raising exercise.

Having taken into consideration of the above, we are of the view that it is reasonable for the Company to maintain a strong capital base and obtain funding for its business development and business operation through the Rights Issue. Accordingly, we concur with the Board's view that the Rights Issue is in the interests of the Company and Shareholders as a whole.

IV. PRINCIPAL TERMS OF THE RIGHTS ISSUE

(a) Basis of the Rights Issue

The Company proposes to raise not less than approximately HK$2.13 billion but not more than HK$2.25 billion before expenses by way of issuing not less than 4,731,504,664 Rights Shares (assuming no outstanding Share Options and Convertible Bonds have been exercised/converted before the Record Date) but not more than 5,003,173,469 Rights Shares (assuming all outstanding Share Options and Convertible Bonds have been exercised/converted in full before the Record Date) by way of Rights Issue at the subscription price of HK0.45 per Rights Share on the basis of one (1) Rights Share for every one (1) existing Share in issue and held by Qualifying Shareholders 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$0.45 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$0.45 per Rights Share represents:

(i) a discount of approximately 25.0% to the closing price of HK$0.60 per Share as quoted on the Stock Exchange on 2 April 2015, being the Last Trading Day;

(ii) a discount of approximately 15.1% to the average closing price of approximately HK$0.53 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 13.5% to the average closing price of approximately HK$0.52 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 15.1% to the theoretical ex-right price of approximately HK$0.53 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 16.7% to the closing price of HK$0.54 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and

(vi) a premium of approximately 1,566.7% to the audited consolidated net tangible asset value per Share of approximately HK$0.027 (based on the latest published audited net tangible asset value of the Group as at 31 December 2014 and 4,731,504,664 Shares in issue as at the date of the Latest Practicable Date).

As set out in the Letter from the Board, 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. The Directors consider the terms of the Rights Issue, including the Subscription Price which has been set as a discount to the recent closing prices of the Shares with an objective to encourage existing Shareholders to take up their entitlements so as to participate in the potential growth of the Company, to be fair and reasonable and in the best interests of the Company and the Shareholders as a whole.

Comparison of the Subscription Price with historical price of the Shares

The highest and lowest closing prices and the average daily closing price of the Shares as quoted on the Stock exchange in each month during the period commencing from the first trading date in April 2014 up to and including the Latest Practicable Date (the "Review Period") are sown as follows:

Month	**Highest closing price per Share** *(HK$)*	**Lowest closing price per Share** *(HK$)*	**Approximate average closing price per Share** *(HK$)*
2014			
April	0.820	0.700	0.764
May	0.720	0.610	0.654
June	0.690	0.640	0.662
July	0.740	0.660	0.694
August	0.730	0.660	0.682
September	0.700	0.600	0.659
October	0.620	0.560	0.591
November	0.620	0.510	0.578
December	0.495	0.395	0.436
2015			
January	0.500	0.415	0.451
February	0.440	0.415	0.426
March	0.530	0.460	0.494
April	0.600	0.510	0.542
May (up to the Latest Practicable Date)	0.550	0.520	0.536

(Source: Bloomberg)

As shown in the tables above, the daily closing price of the Shares during the Review Period ranged from a low of HK$0.395 per Share on December 2014 to the high of HK$0.820 per Share on April 2014. The average closing price of Shares within the Review Period was approximately HK$0.584 per Share, and the Subscription Price represents (i) a premium of approximately 13.9% from the lowest closing price of the Shares; (ii) a discount of approximately 45.1% from the highest closing price of the Shares; and (iii) a discount of approximately 23.0% to the average closing price of Shares within the Review Period.

We note that it is a common market practice that, in order to enhance the attractiveness of a rights issue and to encourage the existing shareholders to participate in the rights issue, the subscription price of a rights issue normally represents a discount to the prevailing market prices of the relevant shares.

Having considered that the closing price of the Shares was in general on a decreasing trend since October 2014, we concur with the Board that the Subscription Prices being set at a discount to the prevailing market prices of the Shares is in line with the general practice.

Trading Liquidity of the Shares

Month	**Number of issued Shares at the beginning of each month (Number of Shares)**	**Number of trading days**	**Average daily trading volume (Number of Shares)**	**Percentage of average daily trading volume to total number of Shares in issue** (%)
2014				
April	4,655,642,596	20	10,244,907	0.22
May	4,655,642,596	20	12,520,700	0.27
June	4,655,642,596	20	5,283,500	0.11
July	4,655,642,596	22	4,947,100	0.11
August	4,655,642,596	21	7,212,333	0.15
September	4,655,642,596	21	7,082,191	0.15
October	4,655,642,596	21	3,137,170	0.07
November	4,655,642,596	20	4,353,913	0.09
December	4,731,504,664	21	5,721,619	0.12
2015				
January	4,731,504,664	21	6,230,095	0.13
February	4,731,504,664	18	1,370,389	0.03
March	4,731,504,664	22	10,403,091	0.22
April	4,731,504,664	9	81,850,898	1.73
May (up to the Latest Practicable Date)	4,731,504,664	5	40,371,482	0.85

The Stock Exchange and Bloomberg

The above table illustrates that the average daily trading volume of the Shares per month was thin during the Review Period, with ranges from approximately 0.03% to 1.73% of the total number of issued Shares at the beginning of the respective month. Average daily trading volume of the Shares per month was below 0.30% of the total number of issued Shares at the beginning of the month in most of the Review Period. Since the Shares were generally illiquid in the open market, we concur with the Board that it would be difficult to attract the Qualifying Shareholders to reinvest in the Company through the Rights Issue if the Subscription Price was not set at discount to the historical closing prices of the Shares. Given that discount on the Subscription Price could attract the Qualifying Shareholders to maintain their respective shareholdings in the Company and participate in the future growth of the Group, we consider that the Subscription

Price being set as lower than the prevailing market prices of the Shares is in line with general market practice and the current market trend, which we consider is reasonable and acceptable.

Comparison with other rights issue

To further assess the fairness and reasonableness of the Rights Issue, we have selected and reviewed 25 rights issues/open offers transactions announced by companies (the "Comparables") listed on the Stock Exchange from the beginning of 1 January 2015 to the date of the Announcement, which is considered to be exhaustive, relevant and comprehensive for comparison purpose. Although the Comparables vary from the Company in terms of their business nature, financial positions and future prospects, the Comparables could be used to provide a general reference to the common market practice in rights issue transactions by the listed companies in Hong Kong. Out of total 25 selected transactions, we have identified one company named Solartech International Holdings Ltd (SEHK: 207) which we consider not appropriate for comparison mainly because this rights issue transaction was not proceeded on a fully underwritten basis, which was different from the proposed Right Issue that will be proceeded on a fully underwritten basis. Therefore, we have excluded this transaction in our comparables analysis.

The remaining 24 rights issues/open offers transaction which form an exhaustive list of rights issues/open offers as summarised in Table 1, were selected based on (i) the relevant underwriting agreements were entered into 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. We consider the selection of such approximately four months period to be sufficient and appropriate for our analysis for fund raising exercises such as rights issues or 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. Nevertheless, Shareholders should note that the businesses, operations and prospects of the Company are not exactly the same as the Comparables and we have not conducted any in-depth investigation into the businesses, operations and prospects of the Comparables.

Table 1: List of companies with fund raising exercises through rights issues/open offers from 1 January 2015 to the date of the Announcement:

Announcement Date	Stock Code	Company Name	Maximum size of rights issue/ open offer (HK$' million)	Basis	Subscription Price (HK$)	Last Trading Day Price (Adjusted for Consolidation/ Sub division) (HK$)	Premium/ Discount to Last Trading Date Price	Theoretical ex-right Price (HK$)	Premium/ Discount to theoretical ex-right Price	Maximum Dilution	Underwriting Commission	Independent Third Party underwriter (Y/N)
14/04/2015	509	Century Sunshine Group Holdings Limited	630.5	1 for 2	0.400	0.760	–47.37%	0.640	–37.50%	33.33%	1.50%	Y
13/04/2015	397	Jun Yang Solar Power Investments Limited	578.1	1 for 2	0.260	0.350	–25.71%	0.320	–18.75%	33.33%	2.50%	Y
09/04/2015	275	Hanny Holdings Limited	770.5	6 for 1	0.160	0.620	–74.19%	0.230	–29.11%	85.71%	3.00%	N *(Note 1)*
08/04/2015	8150	Seamless Green China (Holdings) Limited	75.8	1 for 2	0.203	0.245	–17.14%	0.231	–12.12%	33.33%	1.50%	Y
01/04/2015	313	Richly Field China Development Limited	246.9	1 for 3	0.083	0.083	0.00%	0.083	0.00%	25.00%	0.00%	N
31/03/2015	689	EPI (Holdings) Limited	175.0	1 for 2	0.500	0.910	–45.10%	0.773	–35.30%	33.33%	1.00%	Y
31/03/2015	8265	Powerwell Pacific Holdings Limited	61.6	1 for 2	0.700	0.930	–24.73%	0.853	–17.94%	33.33%	2.00%	Y
26/03/2015	897	Wai Yuen Tong Medicine Holdings Limited	227.8	1 for 2	0.108	0.158	–31.65%	0.141	–23.40%	33.33%	2.50%	Y
26/03/2015	717	Emperor Capital Group Limited	658.0	1 for 2	0.500	0.740	–32.40%	0.660	–24.20%	33.33%	3.00%	N
24/03/2015	8009	Chinese Energy Holdings Limited	162.0	1 for 1	0.150	0.252	–40.48%	0.201	–25.37%	50.00%	2.50%	Y
18/03/2015	665	Haitong International Securities Group Limited	9081.4	1 for 1	3.500	5.280	–33.71%	4.390	–20.27%	50.00%	Not disclosed *(Note 4)*	N *(Noted 2)*
18/03/2015	8212	Celebrate International Holdings Limited	225.5	30 for 1	0.105	1.480	–92.90%	0.149	–29.70%	96.77%	3.00%	Y
13/03/2015	2324	Capital VC Limited	359.9	7 for 1	0.250	1.070	–76.60%	0.350	–28.60%	87.50%	1.00%	Y
11/03/2015	8351	Larry Jewelry International Company Limited	394.0	9 for 1	0.130	0.850	–84.71%	0.202	–35.64%	90.00%	2.50%	Y
27/02/2015	185	Heng Fai Enterprises Limited	36.6	1 for 10	0.100	0.113	–11.50%	0.112	–10.60%	9.09%	2.50%	N
24/02/2015	8100	GET Holdings Limited	205.2	3 for 1	0.350	0.870	–59.80%	0.480	–27.10%	75.00%	3.50%	Y
17/02/2015	1103	Shanghai Tonva Petrochemical Co., Ltd.	494.3	4.5 for 10	0.780	0.830	–6.02%	0.815	–4.29%	31.03%	1.00%	Y
17/02/2015	64	Get Nice Holdings Limited	626.3	1 for 2	0.280	0.355	–21.13%	0.330	–15.15%	33.33%	1.00%	Y
06/02/2015	1166	Solartech International Holdings Limited	189.0	5 for 1	0.200	0.660	–69.70%	0.277	–27.80%	83.33%	2.50%	Y
06/02/2015	1019	Convoy Financial Holdings Limited	521.0	3 for 1	0.250	0.870	–71.26%	0.405	–38.27%	75.00%	3.50%	Y
04/02/2015	860	Ming Fung Jewellery Group Limited	490.4	2 for 1	0.300	0.710	–57.70%	0.440	–31.80%	66.67%	0.50%	Y
02/02/2015	616	Easyknit Enterprises Holdings Limited	329.2	20 for 1	0.650	4.520	–85.56%	0.830	–21.68%	95.24%	1.00%	Y
16/01/2015	310	Prosperity Investment Holdings Limited	60.6	1 for 2	0.170	0.238	–28.57%	0.215	–21.04%	33.33%	3.00%	Y
08/01/2015	149	China Agri-Products Exchange Limited	517.3	8 for 1	0.300	1.712	–82.48%	0.457	–34.35%	88.89%	2.50%	N *(Noted 3)*
		Maximum					0.00%		0.00%	96.77%	3.50%	
		Minimum					–92.90%		–38.27%	9.09%	0.00%	
		Average	**713.20**		**0.43**		**–46.68%**		**–23.75%**	**54.55%**	**2.04%**	

Announcement Date	Stock Code	Company Name	Maximum size of rights issue/ open offer (HK$' million)	Basis	Subscription Price (HK$)	Last Trading Day Price (Adjusted for Consolidation/ Sub division) (HK$)	Premium/ Discount to Last Trading Date Price	Theoretical ex-right Price (HK$)	Premium/ Discount to theoretical ex-right Price	Maximum Dilution	Underwriting Commission	Independent Third Party underwriter (Y/N)
21/04/2015	3989	the Company	2,250.0	1 for 1	0.45	0.600	–25.00%	0.53%	–15.10%	50.00%	0.00%	N

Excluded

Announcement Date	Stock Code	Company Name	Maximum size of rights issue/ open offer (HK$' million)	Basis	Subscription Price (HK$)	Last Trading Day Price (Adjusted for Consolidation/ Sub division) (HK$)	Premium/ Discount to Last Trading Date Price	Theoretical ex-right Price (HK$)	Premium/ Discount to theoretical ex-right Price	Maximum Dilution	Underwriting Commission	Independent Third Party underwriter (Y/N)
27/02/2015	207	Solartech International Holdings Ltd.	6404.0	1 for 2	1.350	1.430	–5.60%	1.400	–3.60%	33.33%	—	N

Note 1 According to the announcement dated 9 April 2015, there were two underwriters, Emperor Securities Limited, is an independent third party and Dr. Yap Allan is a substantial shareholder of the issuer

Note 2 According to the announcement dated 18 March 2015, there were three joint bookrunners, China Securities (International) Corporate Finance Company Limited and Qilu International Capital Limited are an independent third party and Haitong International Securities Company Limited, is an indirect wholly-owned subsidiary of Haitong International Securities Group Limited

Note 3 According to the announcement dated 8 January 2015, there were two underwriters, Kingston Securities Limited, is an independent third party and Jade Range Limited is a wholly-owned subsidiary of the issuer

Note 4 The Company did not disclose the underwriting commission in the respective announcement and thus, it is excluded from the calculation of maximum, minimum and average underwriting commission in term of percentage

As indicated in the above table, the Comparables had subscription prices at par or discount to their respective closing price per share on the respective last trading day prior to the release of the relevant announcements of maximum 92.90%, with an average discount of approximately 46.68%. The discount of the Subscription Price to the closing price per Share on the Last Trading day is 25.00%, which falls within the range and represents a lower discount than the corresponding average discount of the Comparables. With regard to the discount to the theoretical ex-rights/entitlement price per share of the Comparables, they ranged from a discount of 0% to a discount of approximately 38.27%, with an average discount of approximately 23.75%. The Subscription Price represented a discount of approximately 15.10% to the theoretical ex-rights/entitlement price per Share, which also falls within the range of the Comparables but lower than the average discount of the Comparables.

Despite the respective range of the Comparables are wide, having taken into account that (i) in general, it is common for the listed issuers in Hong Kong to issue rights issue/open offer at a discount to the market price in order to enhance the attractiveness of the rights issue/open offer transaction; (ii) the discounts represented by the Subscription Price to the closing price of the Shares on the Last Trading Day do not exceed the ranges of the Comparables; and (iii) the interest of the Qualifying Shareholders will not be prejudiced by the discount of the Subscription Price so long as they are offered with an equal opportunity to participate in the Rights Issue, we consider the discounts of the Subscription Price to the Last Trading Day and theoretical ex-rights price which is within the respective range of the Comparables are fair and reasonable.

The Subscription Price was determined after arm's length negotiations between the Company and the Underwriter with reference to the market price of the Shares prior to the Last Trading Day. Having considered that (i) the discount represented by the Subscription Price to the closing price of the Shares on the Last Trading Day is within the range of the Comparables; and the discount represented by the Subscription Price to the theoretical ex-rights price fall within the respective range of the Comparables; (ii) the downward trend of the recent closing price of the Shares since October 2014; (iii) the subscription price is at a premium of approximately 221.4% to the audited NAV per Share as at 31 December 2014; (iv) the trading volume of the Shares was thin with average daily trading volume of the Shares per month below 0.20% of the total number of issued Shares at the beginning of the month in most of the Review Period; (v) it is common for the listed companies in Hong Kong to price a rights issue/open offer at a discount to the market price in order to enhance the attractiveness of subscription of the rights issue/open offer transaction; and (vi) all Qualifying Shareholders are offered an equal opportunity to subscribe for the Rights Shares, we consider the Subscription Price is fair and reasonable so far as the Independent Shareholders are concerned.

V. POSSIBLE FINANCIAL EFFECTS OF THE RIGHTS ISSUE

(a) Adjusted consolidated 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 unaudited pro forma adjusted consolidated net tangible assets of the Group ("Pro Forma NTA") would amount to approximately HK$2.2 billion as a result of the completion of the Rights Issue and receipt of an estimated net proceeds from the Rights Issue of approximately HK$2.1 billion.

Assuming completion of the Rights Issue, the Pro Forma NTA per Share would be approximately HK23.68 cents (based on the enlarged issued share capital of 4,731,504,664 Shares upon completion of the Rights Issue assuming that no outstanding Share Options Warrants and Convertible Bond have been exercised/converted and no other Shares are allotted or issued on or before the Record Date), representing an increase of approximately 786.9% from the audited consolidated net tangible asset per Share of approximately HK2.67 cents as at 31 December 2014.

Shareholders should take note of the assumptions made in the preparation of the unaudited pro forma financial information of the Group contained in Appendix II to the Circular that, in particular, the pro forma financial information does not take into account any trading result or other transactions of the Group subsequent to 31 December 2014.

(b) Cash position and equity base

According to the Appendix I to the Circular, the Group had bank balances and cash of approximately HK$468.2 million as at 31 December 2014. Upon the completion of the Rights Issue, the cash and cash equivalents of the Group will increase as a result of the minimum estimated net proceeds of approximately HK$2,110 million. The Rights Issue will provide additional liquidity in the form of equity to the Group and therefore, will enhance its financial position and capital base and total equity of the Group. We consider that it is in the interests of the Company and the Shareholders as a whole.

(c) Gearing ratio

According to Appendix I to the Circular, the Group's total bank borrowings and total equity as at 31 December 2014 were approximately HK$1,662.8 million and HK$692.5 million respectively. The Company's gearing ratio (being the ratio of total borrowings to total equity) was therefore approximately 2.40x. 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.

VI. TERMS OF THE UNDERWRITING AGREEMENT

(a) Underwriting Commission

Pursuant to the Underwriting Agreement, the Underwriter has agreed to fully underwrite not less than 2,389,376,378 Rights Shares but not more than 2,392,079,666 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 head "Underwriting Agreement" in the "Letter from the Board".

As indicated in Table 1, we noted that most of the underwriting commission charged by the underwriters for the Comparables were at least 1% of the gross proceed. As for the proposed Rights Issue, the Company will not pay the Underwriter for any underwriting commission, which was determined after arm's length negotiations between the Company and the Underwriter. We concur with the Directors that the Company will be better off from such arrangement as the total underwriting expenses decreased so far as the Independent Shareholders are concerned.

We have been advised by the Directors that they have consulted certain independent third party financial institutions to act as the underwriter for the Rights Issue, but due to (i) the volatility of the stock market in Hong Kong and the financial position of the Group, no other financial institutions are willing to underwrite any Shares of the Company; and (ii) pursuant to the Underwriting Agreement, the Company will not pay any underwriting commission to the Underwriter, which on the other hand increase the net proceeds from the Right Issue. Given the aforementioned reasons, we concur with the Directors that engaging BCG Chinastar International Investment Limited to act as the underwriter of the Proposed Rights Issue is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

(b) Termination of the Underwriting Agreement

Pursuant to the Underwriting Agreement, the Rights Issue will not proceed if the Underwriter reserves the rights under the Underwriting Agreement to rescind or terminate the Underwriting Agreement by notice in writing given by the Underwriter to the Company at any time prior to the Latest Time for Termination. Details of the provisions granting the Underwriter such termination rights are included in the section head "Termination of the Underwriting Agreement" in the broad Letter.

(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". 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.

We consider the terms in the Underwriting Agreement are fair and reasonable and are in the interests of the Company and the Independent Shareholders as a whole.

VII. 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 to a maximum of approximately 50.0%. 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 issue/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 comparables analysis set out in the Table 1 above, the effect of such maximum dilution ranged from 9.09% to 96.77%. The possible maximum dilution of 50% as in the case of the Rights Issue falls within the aforesaid range of the companies set out in the Comparables while the offering ratio of the rights Issue corresponds to those commonly implemented by the companies set out in the Comparables. 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.

VIII. WHITEWASH WAIVER

Beijing Capital (Hong Kong) Limited, a wholly-owned subsidiary of Beijing Capital is a controlling Shareholder of the Company and BC Water Investments Co., Ltd, an indirect wholly-owned subsidiary of Beijing Capital, are parties acting in concert with the Underwriter and are beneficially interested in 2,342,128,286 Shares, representing approximately 49.50% of the issued share capital of the Company as at the Latest Practicable Date.

If (i) the Underwriter is required to take up any Rights Shares pursuant to its underwriting commitment in connection with the Rights Issue; or (ii) Beijing Capital (HK) and BC Water have taken up and accepted their respective rights entitlement under the Rights Issue and allocated with excess Rights Shares which they applied for, the Underwriter and parties acting in concert with it, namely Beijing Capital (HK) and BC Water may trigger an obligation to make a mandatory offer under Rule 26.1 of the

Takeovers Code. Based on the minimum of 4,731,504,664 Rights Shares proposed to be issued, upon the completion of the Rights Issue, assuming that (i) no Qualifying Shareholders (other than Beijing Capital (HK) and BC Water) take up any Rights Shares; and (ii) the number of issued Shares remain unchanged (with no exercise/conversion of outstanding Share Options and/or Convertible Bonds), the Underwriter pursuant to the Underwriting Agreement will be required to subscribe for 2,389,376,378 Rights Shares, which will result in the Underwriter and parties acting concert it, including Beijing Capital (HK) and BC Water be beneficially interested in 7,073,632,950 Shares, representing approximately 74.75% of the enlarged issued share capital of the Company upon completion of the Rights Issue. For illustration purpose only, based on the maximum of 5,003,173,469 Rights Shares proposed to be issued, upon completion of the Rights Issue, assuming that (i) no Qualifying Shareholders (other than Beijing Capital (HK) and BC Water) takes up any Rights Shares; and (ii) the number of issued Shares remains unchanged (save for the full exercise/conversion of outstanding Share Options and/or Convertible Bonds), the Underwriter pursuant to the Underwriting Agreement will be required to subscribe for 2,392,079,666 Rights Shares, which will result in the Underwriter and parties acting in concert with it, including Beijing Capital (HK) and BC Water beneficially interested in 7,614,267,272 Shares, representing approximately 76.09% 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 will be made by the Underwriter, Beijing Capital (HK) and BC Water to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeover Code. The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, the approval of the Independent Shareholders by way of poll at the EGM.

Upon completion of the Rights Issue, the Underwriter, Beijing Capital (HK) and BC Water 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 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, Beijing Capital (HK) and BC Water. 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 debts and investment in ongoing projects and potential acquisitions or investments; 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.

RECOMMENDATIONS

The Rights Issue is conditional upon the approval of the Whitewash Waiver. If the Whitewash Waiver is not approved, the Rights Issue will not proceed. Having considered that the above principal factors and reasons, in particular:

(i) the investment in the ongoing projects will expect to generate a reasonable investment return as most of them are already in operation; the repayment debt will further improve the Group's account gearing ratio;

(ii) all Qualifying Shareholders are offered an equal opportunity to participate in the Rights Issue to take up their provisional allotments in full to maintain their respective shareholdings in the Company;

(iii) the Subscription Price has been determined based on arm's length negotiations between the Company and the Underwriter and the discount as represented by the Subscription Price to the closing price on the Last Trading Day and the maximum potential dilution impact are fall within the range of that of the Comparables; and the discount as represented by the Subscription Price to the theoretical ex-rights price of the Shares also falls within the range of that of the Comparables;

(iv) no underwriting commission will be paid to the Underwriter;

(v) the Rights Issue will increase the capital base of the Group and improve its the Group's financial position; and

(vi) the Rights Issue will have positive impact on the net tangible assets and liquidity position of the Group.

We consider that the terms of Rights Issue and the Whitewash Waiver which is to facilitate the implementation of the Rights Issue, are fair and reasonable and are in the interests of the Company and the Shareholders as a whole and, are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to recommend that the Independent Shareholders to vote in favour of the resolution(s) relating to the Rights Issue and the Whitewash Waiver at the EGM.

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

Note: Mr. Steven Chiu is a responsible officer of China Galaxy International Securities (Hong Kong) Co., Limited registered with the SFC to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has over 18 years of experience in securities industry.

A. FINANCIAL SUMMARY

The following is a summary of the consolidated financial information of the Group for the three years ended 31 December 2012, 2013 and 2014. Save as disclosed, no exceptional item due to size, nature or incidence was noted for each of the three years ended 31 December 2014.

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 2012, 2013 and 2014.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the year ended 31 December

	2014	2013	2012
	HK$'000	*HK$'000*	*HK$'000*
	(Audited)	(Audited)	(Audited)
Revenue	963,608	282,411	29,786
Cost of sales	(841,063)	(139,324)	(18,081)
Gross profit	122,545	143,087	11,705
Other income, gains and losses	(104,263)	45,880	(39,745)
Gain (loss) on fair value change of embedded derivatives	86,762	(117,410)	(16,484)
Gain on fair value change of warrants	3,861	—	—
Administrative expenses	(103,164)	(71,637)	(68,057)
Share of results of an associate	4,102	11,556	7,874
Finance costs	(67,292)	(55,884)	(50,839)
Loss before tax	(57,449)	(44,408)	(155,546)
Income tax (expense)/credit	(5,080)	1,846	2,869
Loss for the year from continuing operations	(62,529)	(42,562)	(152,677)
Discontinued operations			
Profit for the year from discontinued operations	—	—	4,852
Loss for the year	(62,529)	(42,562)	(147,825)
Other comprehensive (expense)/income			
Items that will not be reclassified to profit or loss:			
Exchange differences arising on translation:			
Exchange difference arising during the year	(21,012)	13,015	192
Exchange difference arising from an associate during the year	(6,112)	3,332	779
Reclassification adjustment upon disposal of subsidiaries	—	—	(3,607)
Other comprehensive (expense)/income for the year (net of tax)	(27,124)	16,347	(2,636)
Total comprehensive expense for the year	(89,653)	(26,215)	(150,461)

	2014 *HK$'000* (Audited)	2013 *HK$'000* (Audited)	2012 *HK$'000* (Audited)
Profit/(loss) for the year attributable to:			
Owners of the Company:			
— from continuing operations	(68,266)	(124,370)	(151,906)
— from discontinued operations	—	—	4,852
Loss for the year attributable to owners of the Company	(68,266)	(124,370)	(147,054)
Profit/(loss) for the year attributable to Non-controlling interests:			
— from continuing operations	5,737	81,808	(771)
— from discontinued operations	—	—	—
Profit/(loss) for the year attributable to non-Controlling interests	5,737	81,808	(771)
	(62,529)	(42,562)	(147,825)
Total comprehensive (expense)/income attributable to:			
Owners of the Company	(90,852)	(108,476)	(150,310)
Non-controlling interests	1,199	82,261	(151)
	(89,653)	(26,215)	(150,461)

	2014 *HK$'000*	2013 *HK$'000*	2012 *HK$'000*
Loss per share			
From continuing and discontinued operations			
Basic *(HK cents)*	(1.46)	(3.77)	(8.50)
Diluted *(HK cents)*	(2.81)	(3.77)	(8.50)
From continuing operations			
Basic *(HK cents)*	(1.46)	(3.77)	(8.78)
Diluted *(HK cents)*	(2.81)	(3.77)	(8.78)
Dividend	Nil	Nil	Nil

The following is a summary of the consolidated balance sheets as at 31 December 2012, 2013 and 2014 as extracted from the respective annual reports of the Group.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As at 31 December

	2014	**2013**	**2012**
	HK$'000	*HK$'000*	*HK$'000*
	(Audited)	(Audited)	(Audited)
Non-current assets			
Property, plant and equipment	118,084	63,850	15,965
Intangible assets	360,210	21,660	2,318
Goodwill	13,810	13,810	—
Prepaid lease payments	69,121	62,525	2,277
Amounts due from grantors for contract work	1,330,171	641,200	383,339
Amount due from an investee	—	—	45,267
Amount due from an associate	—	—	6,219
Interest in an associate	108,090	116,719	101,831
Deposits paid for construction of infrastructure in service concession arrangements	101,658	222,282	174,981
Deposits, prepayments and other receivables	4,375	10,256	—
	2,105,519	1,152,302	732,197
Current assets			
Inventories	26,294	23,972	—
Trade receivables	217,656	176,777	7,411
Deposits, prepayments and other receivables	55,269	94,414	32,267
Amounts due from grantors for contract work	72,695	15,682	9,453
Prepaid lease payments	1,238	1,270	52
Amount due from an associate	23,141	14,883	12,708
Pledged bank deposits	22,077	57,692	—
Bank balances and cash	468,231	575,932	263,239
	886,601	960,622	325,130
Current liabilities			
Trade payables	132,297	30,014	23,863
Other payables and accruals	322,834	100,183	42,326
Provisions	9,038	9,270	192,969
Deferred income	945	—	—
Taxation payable	54,641	47,469	15,638
Borrowings	1,025,913	384,045	26,592
Convertible notes	—	14,177	—
Convertible bonds	63,674	85,170	—
Embedded derivatives	—	149,112	—
Warrants	79	—	—
	1,609,421	819,440	301,388
Net current assets/(liabilities)	(722,820)	141,182	23,742
Total assets less current liabilities	1,382,699	1,293,484	755,939

	2014	2013	2012
	HK$'000	*HK$'000*	*HK$'000*
	(Audited)	(Audited)	(Audited)
Non-current liabilities			
Deferred income	42,805	—	—
Convertible notes	—	—	150,400
Convertible bonds	—	—	252,200
Embedded derivatives	—	—	54,152
Borrowings	636,919	607,077	239,899
Deferred tax liabilities	10,435	6,903	8,071
	690,159	613,980	704,722
	692,540	679,504	51,217
Capital and reserves			
Share capital	473,150	465,564	186,226
Reserves	15,739	16,184	(125,478)
Equity attributable to owners of the Company	488,889	481,748	60,748
Non-controlling interests	203,651	197,756	(9,531)
	692,540	679,504	51,217

B. AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

Set out below is the audited consolidated financial statements of the Group for the year ended 31 December 2014 as extracted from the annual report of the Group for the year ended 31 December 2014.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

	NOTES	**2014** *HK$'000*	**2013** *HK$'000*
Revenue	7	963,608	282,411
Cost of sales		(841,063)	(139,324)
Gross profit		122,545	143,087
Other income, gains and losses	9	(104,263)	45,880
Gain (loss) on fair value change of embedded derivatives	33	86,762	(117,410)
Gain on fair value change of warrants	34	3,861	—
Administrative expenses		(103,164)	(71,637)
Share of results of an associate	23	4,102	11,556
Finance costs	10	(67,292)	(55,884)
Loss before tax	11	(57,449)	(44,408)
Income tax (expense) credit	12	(5,080)	1,846
Loss for the year		(62,529)	(42,562)
Other comprehensive (expense) income			
Items that will not be reclassified to profit or loss:			
Exchange differences arising on translation:			
Exchange difference arising during the year		(21,012)	13,015
Exchange difference arising from an associate during the year		(6,112)	3,332
Other comprehensive (expense) income for the year (net of tax)		(27,124)	16,347
Total comprehensive expense for the year		(89,653)	(26,215)

	NOTES	2014 HK$'000	2013 HK$'000
(Loss) profit for the year attributable to:			
Owners of the Company		(68,266)	(124,370)
Non-controlling interests		5,737	81,808
		(62,529)	(42,562)
Total comprehensive (expense) income attributable to:			
Owners of the Company		(90,852)	(108,476)
Non-controlling interests		1,199	82,261
		(89,653)	(26,215)
Loss per share	16		
Basic		HK$(1.46) cents	HK(3.77) cents
Diluted		HK$(2.81) cents	HK(3.77) cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2014

	NOTES	**2014** *HK$'000*	**2013** *HK$'000*
Non-current assets			
Property, plant and equipment	17	118,084	63,850
Intangible assets	18	360,210	21,660
Goodwill	19	13,810	13,810
Prepaid lease payments	20	69,121	62,525
Amounts due from grantors for contract work	21	1,330,171	641,200
Interest in an associate	23	108,090	116,719
Deposits paid for construction of infrastructure in service concession arrangements	24	101,658	222,282
Deposits, prepayments and other receivables	26	4,375	10,256
		2,105,519	1,152,302
Current assets			
Inventories	25	26,294	23,972
Trade receivables	26	217,656	176,777
Deposits, prepayments and other receivables	26	55,269	94,414
Amounts due from grantors for contract work	21	72,695	15,682
Prepaid lease payments	20	1,238	1,270
Amount due from an associate	28	23,141	14,883
Pledged bank deposits	29	22,077	57,692
Bank balances and cash	29	468,231	575,932
		886,601	960,622
Current liabilities			
Trade payables	30(a)	132,297	30,014
Other payables and accruals	30(b)	322,834	100,183
Provisions	30(c)	9,038	9,270
Deferred income	30(d)	945	—
Taxation payable		54,641	47,469
Borrowings	31	1,025,913	384,045
Convertible notes	32	—	14,177
Convertible bonds	33	63,674	85,170
Embedded derivatives	33	—	149,112
Warrants	34	79	—
		1,609,421	819,440
Net current (liabilities) assets		(722,820)	141,182
Total assets less current liabilities		1,382,699	1,293,484

	NOTES	2014 HK$'000	2013 HK$'000
Non-current liabilities			
Deferred income	30(d)	42,805	—
Borrowings	31	636,919	607,077
Deferred tax liabilities	35	10,435	6,903
		690,159	613,980
		692,540	679,504
Capital and reserves			
Share capital	36	473,150	465,564
Reserves		15,739	16,184
Equity attributable to owners of the Company		488,889	481,748
Non-controlling interests	37	203,651	197,756
		692,540	679,504

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

	Attributable to owners of the Company										
	Share capital HK$'000	Share premium HK$'000	Translation reserve HK$'000	Share option reserve HK$'000	Special reserve HK$'000 (Note)	Convertible bonds equity reserve HK$'000	Convertible notes equity reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2013	186,226	1,542,219	68,701	227	25,155	—	174,156	(1,935,936)	60,748	(9,531)	51,217
Loss for the period	—	—	—	—	—	—	—	(124,370)	(124,370)	81,808	(42,562)
Exchange differences on translation	—	—	12,562	—	—	—	—	—	12,562	453	13,015
Exchange differences arising from an associate on translation	—	—	3,332	—	—	—	—	—	3,332	—	3,332
Total comprehensive income (expense) for the period	—	—	15,894	—	—	—	—	(124,370)	(108,476)	82,261	(26,215)
Rights issue *(Note 36(b))*	279,338	428,648	—	—	—	—	(178,897)	—	529,089	—	529,089
Share issuance expenses	—	(4,495)	—	—	—	—	—	—	(4,495)	—	(4,495)
Capital contribution from non-controlling interests of a subsidiary	—	—	—	—	—	—	—	—	—	6,580	6,580
Acquisition of subsidiaries *(Note 38(a))*	—	—	—	—	—	—	—	—	—	118,446	118,446
Disposal of subsidiary	—	—	—	—	(25,155)	—	—	25,155	—	—	—
Deferred tax liabilities on recognition of equity components of convertible notes *(Note 32)*	—	—	—	—	—	—	4,882	—	4,882	—	4,882
Lapse of share option *(Note 46)*	—	—	—	(129)	—	—	—	129	—	—	—
At 31 December 2013	465,564	1,966,372	84,595	98	—	—	141	(2,035,022)	481,748	197,756	679,504
(Loss) profit for the period	—	—	—	—	—	—	—	(68,266)	(68,266)	5,737	(62,529)
Exchange differences on translation	—	—	(16,474)	—	—	—	—	—	(16,474)	(4,538)	(21,012)
Exchange differences arising from an associate on translation	—	—	(6,112)	—	—	—	—	—	(6,112)	—	(6,112)
Total comprehensive (expense) income for the period	—	—	(22,586)	—	—	—	—	(68,266)	(90,852)	1,199	(89,653)
Capital contribution from non-controlling interests of a subsidiary	—	—	—	—	—	—	—	—	—	2,404	2,404
Acquisition of subsidiaries *(Note 38(a))*	—	—	—	—	—	—	—	—	—	2,292	2,292
Conversion of convertible bonds *(Note 33)*	7,586	38,567	—	—	—	—	—	—	46,153	—	46,153
Issuance of convertible bonds *(Note 33)*	—	—	—	—	—	51,981	—	—	51,981	—	51,981
Redemption on convertible notes *(Note 32)*	—	—	—	—	—	—	(141)	—	(141)	—	(141)
At 31 December 2014	473,150	2,004,939	62,009	98	—	51,981	—	(2,103,288)	488,889	203,651	692,540

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 ("Full Prosper") 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.

During the year ended 31 December 2013, the Group has disposed Full Prosper to an independent third party.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2014

	NOTES	2014 HK$'000	2013 HK$'000
OPERATING ACTIVITIES			
Loss for the year		(62,529)	(42,562)
Adjustments for:			
Income tax expense (credit)		5,080	(1,846)
Depreciation of property, plant and equipment		12,946	2,547
Amortisation of prepaid lease payments		1,567	55
Reversal of provision for expected losses in relation to service concession arrangements	21	—	(83,333)
Finance costs		67,292	55,884
Interest income		(55,647)	(42,639)
Reversal of impairment loss recognised in respect of trade receivables		—	7,526
Impairment loss recognised in respect of deposits, prepayments and other receivables		6,023	11,364
Impairment loss recognised in respect of deposits paid for construction of infrastructure in service concession arrangements		104,918	1,237
Impairment loss recognised in respect of amount due from an investee		—	46,770
Share of results of an associate		(4,102)	(11,556)
Gain on fair value change of warrant		34	(3,861)
Change in fair value of embedded derivative of convertible bonds	33	(86,762)	117,410
Gain on redemption of convertible bonds		—	(3,217)
Loss on disposal of property, plant and equipment		474	—
Amortisation of intangible assets		17,972	1,171
Reversal of penalty charges in relation to construction of waste-to-energy plant	30(c)	—	(103,409)
Net unrealised exchange gain		—	(5,353)
Operating cash flows before movements in working capital		3,371	(49,951)
Increase in inventories		(2,127)	(26)
Increase in trade receivables		(29,891)	(24,535)
Decrease (increase) in deposits, prepayments and other receivables		37,693	(73,635)
Decrease in amounts due from grantors from contract works		94,464	22,509
Increase (decrease) in trade payables		14,030	(1,109)
(Decrease) increase in other payables and accruals		(52,468)	54,932
Increase in deferred income		43,750	—
Cash from (used in) operations		108,822	(71,815)
Tax paid for other jurisdictions		—	—
NET CASH GENERATED (USED IN) OPERATING ACTIVITIES		108,822	(71,815)

	NOTES	2014 HK$'000	2013 HK$'000
INVESTING ACTIVITIES			
Deposits paid to contractors for construction of infrastructure in service concession arrangements		(575,251)	(262,453)
Purchase of property, plant and equipment		(56,097)	(1,504)
Proceeds on disposal of property, plant and equipment		1,884	167
Purchase of prepaid lease payments		(9,687)	—
Repayment from an associate		—	5,713
Interest received		1,973	5,257
Disposal of subsidiaries	39	—	(61)
Acquisition of subsidiaries	38	(63,570)	(15,916)
Withdrawal (placement) of pledged bank deposits		35,615	(57,692)
NET CASH USED IN INVESTING ACTIVITIES		(665,133)	(326,489)
FINANCING ACTIVITIES			
Proceeds from issue of ordinary shares		—	381,675
Repayment of borrowings		(415,750)	(134,462)
Interest paid		(29,360)	(25,401)
Share issuance expenses		—	(4,495)
Proceed from issue of warrant		3,940	—
New borrowings raised		918,181	694,808
Redemption of convertible notes	32	(16,000)	—
Redemption of convertible bonds		—	(210,475)
Capital contribution from non-controlling interest of a subsidiary		2,404	6,580
NET CASH FROM FINANCING ACTIVITIES		463,415	708,230
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(92,896)	309,926
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		(14,805)	2,767
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		575,932	263,239
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		468,231	575,932
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		468,231	575,932

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

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 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.

At 31 December 2014, the Group's current liabilities exceeded its current assets by approximately HK$722,820,000. In view of these circumstances, the directors of the Company have given consideration of the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern. 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$62,529,000 for the year ended 31 December 2014 and had capital commitment of approximately HK$182,515,000 and other commitment of approximately HK$130,983,000 as at 31 December 2014. The directors of the Company are satisfied that the Group will have sufficient financial resources to meet its financial obligations as they fall due in the foreseeable future as a substantial shareholder, Beijing Capital (Hong Kong) Limited ("Beijing Capital HK"), a wholly owned subsidiary of a listed company in the People's Republic of China ("PRC"), Beijing Capital Co., Ltd., has granted the Group a three-year term facility of RMB1,300,000,000 (approximately HK$1,625,000,000) in March 2015.

Taking into account the Group's cash flow projection, including the term facility, unutilised bank facilities, the Group's ability to renew of refinance the banking facilities upon maturity and the Group's future capital expenditure in respect of its non-cancellable capital commitments, the directors of the Company consider that it has sufficient working capital to meet in full its financial obligations as they fall due for at least the next twelve months from the end of the reporting period and accordingly, the financial statements have been prepared on a going concern basis.

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

The Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in current year:

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC) — Int 21	Levies

Except as described below, 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.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 Investment Entities

The Group has applied the amendments to HKFRS 10, HKFRS 12 and HKAS 27 Investment Entities for the first time in the current year. The amendments to HKFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

To qualify as an investment entity, a reporting entity is required to:

- obtain funds from one or more investors for the purpose of providing them with investment management services;
- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to HKFRS 12 and HKAS 27 to introduce new disclosure requirements for investment entities.

As the Company is not an investment entity (assessed based on the criteria set out in HKFRS 10 as at 1 January 2014), the application of the amendments has had no impact on the disclosures or the amounts recognised in the Group's consolidated financial statements.

Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities

The Group has applied the amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities for the first time in the current year. The amendments to HKAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.

The amendments have been applied retrospectively. The Group has assessed whether certain of its financial assets and financial liabilities qualify for offset based on the criteria set out in the amendments and concluded that the application of the amendments has had no impact on the amounts recognised in the Group's consolidated financial statements.

Amendments to HKAS 36 Recoverable Amount Disclosures for Non-Financial Assets

The Group has applied the amendments to HKAS 36 Recoverable Amount Disclosures for Non-Financial Assets for the first time in the current year. The amendments to HKAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by HKFRS 13 Fair Value Measurements.

The application of these amendments has had no material impact on the disclosures in the Group's consolidated financial statements.

Amendments to HKAS 39 Novation of Derivatives and Continuation of Hedge Accounting

The Group has applied the amendments to HKAS 39 Novation of Derivatives and Continuation of Hedge Accounting for the first time in the current year. The amendments to HKAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative designated as a hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness.

The amendments have been applied retrospectively. As the Group does not have any derivatives that are subject to novation, the application of these amendments has had no impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

HK(IFRIC) — Int 21 Levies

The Group has applied HK(IFRIC) — Int 21 Levies for the first time in the current year. HK(IFRIC) — Int 21 addresses the issue as to when to recognise a liability to pay a levy imposed by a government. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

HK(IFRIC) — Int 21 has been applied retrospectively. The application of this Interpretation has had no material impact on the disclosures or on the amounts recognised in the Group's 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:

HKFRS 9	Financial Instruments[1]
HKFRS 14	Regulatory Deferral Accounts[2]
HKFRS 15	Revenue from Contracts with Customers[3]
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations[5]
Amendments to HKAS 1	Disclosure Initiative[5]
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[5]
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions[4]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010–2012 Cycle[6]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011–2013 Cycle[4]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012–2014 Cycle[5]
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants[5]
Amendments to HKAS 27	Equity Method in Separate Financial Statements[5]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consideration Exceptions[5]

[1] Effective for annual periods beginning on or after 1 January 2018
[2] Effective for first annual HKFRS financial statements beginning on or after 1 January 2016
[3] Effective for annual periods beginning on or after 1 January 2017
[4] Effective for annual periods beginning on or after 1 July 2014
[5] Effective for annual periods beginning on or after 1 January 2016
[6] Effective for annual periods beginning on or after 1 July 2014, with limited exceptions

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of HKFRS 9 are described below:

- All recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at 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. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value 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.

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors of the Company do not anticipate that the application of HKFRS 9 in the future may have a material impact on amounts reported in respect of the Group's financial assets and financial liabilities. Changes in fair value of financial liabilities attributable to changes in credit risk of financial liabilities that are designated as at fair value through profit or loss are disclosed in note 33.

Annual Improvements to HKFRSs 2010–2012 Cycle

The Annual Improvements to HKFRSs 2010–2012 Cycle include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 2 (i) change the definitions of 'vesting condition' and 'market condition'; and (ii) add definitions for 'performance condition' and 'service condition' which were previously included within the definition of 'vesting condition'. The amendments to HKFRS 2 are effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

The amendments to HKFRS 3 clarify that contingent consideration that is classified as an asset or a liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of HKFRS 9 or HKAS 39 or a non-financial asset or liability. Changes in fair value (other than measurement period adjustments) should be recognised in profit and loss. The amendments to HKFRS 3 are effective for business combinations for which the acquisition date is on or after 1 July 2014.

The amendments to HKFRS 8 (i) require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have 'similar economic characteristics'; and (ii) clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.

The amendments to the basis for conclusions of HKFRS 13 clarify that the issue of HKFRS 13 and consequential amendments to HKAS 39 and HKFRS 9 did not remove the ability to measure short- term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial. As the amendments do not contain any effective date, they are considered to be immediately effective.

The amendments to HKAS 16 and HKAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/ amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The amendments to HKAS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

The directors of the Company do not anticipate that the application of these amendments will have a material effect on the Group's consolidated financial statements.

Annual Improvements to HKFRSs 2011–2013 Cycle

The Annual Improvements to HKFRSs 2011–2013 Cycle include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments to HKFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, HKAS 39 or HKFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within HKAS 32.

The amendments to HKAS 40 clarify that HKAS 40 and HKFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether:

(a) the property meets the definition of investment property in terms of HKAS 40; and

(b) the transaction meets the definition of a business combination under HKFRS 3.

The directors of the Company do not anticipate that the application of these amendments will have a material effect on the Group's consolidated financial statements.

Annual Improvements to HKFRSs 2012–2014 Cycle

The Annual Improvements to HKFRSs 2012–2014 Cycle include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 5 introduce specific guidance in HKFRS 5 for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa), or when held-for-distribution accounting is discontinued. The amendments apply prospectively.

The amendments to HKFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets and clarify that the offsetting disclosures (introduced in the amendments to HKFRS 7 Disclosure — Offsetting Financial Assets and Financial Liabilities issued in December 2011 and effective for periods beginning on or after 1 January 2013) are not explicitly required for all interim periods. However, the disclosures may need to be included in condensed interim financial statements to comply with HKAS 34 Interim Financial Reporting.

The amendments to HKAS 19 clarify that the high quality corporate bonds used to estimate the discount rate for post-employment benefits should be issued in the same currency as the benefits to be paid. These amendments would result in the depth of the market for high quality corporate bonds being assessed at currency level. The amendments apply from the beginning of the earliest comparative period presented in the financial statements in which the amendments are first applied. Any initial adjustment arising should be recognised in retained earnings at the beginning of that period.

The amendments to HKAS 34 clarify the requirements relating to information required by HKAS 34 that is presented elsewhere within the interim financial report but outside the interim financial statements. The amendments require that such information be incorporated by way of a cross-reference from the interim financial statements to the other part of the interim financial report that is available to users on the same terms and at the same time as the interim financial statements.

The directors of the Company do not anticipate that the application of these will have a material effect on the Group's consolidated financial statements.

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 of Hong Kong Limited and by the Hong Kong Companies Ordinance (Cap. 32).

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 and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

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 and its subsidiaries. Control is achieved where the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries 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.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in 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, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted 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, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

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 assets or liabilities 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.

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 an 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 profit or loss on disposal.

Investments in associates

An associate is an entity over which the Group has significant influence. 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, an investment in an associate is 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 exceeds the Group's 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 the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee 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 and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

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 of disposal) 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.

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.

Service income including that from operating service provided under service concession arrangements is recognised when services are provided.

Consultancy fee income is recognised by the stage of completion for the services provided at end of the reporting period.

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 other than construction in progress are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of assets other than construction in progress 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 32.33%
Motor vehicles	10% to 24%

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

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.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

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 profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's 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 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. Loans and receivables (including trade receivables, other receivables, amounts due from grantors for contract work, amounts due from an investee and an associate, pledged bank deposits 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, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. 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 180 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.

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 an entity 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 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 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 effect 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).

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

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.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

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.

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.

When the Group has a right to charge for usage of service concession arrangement as a consideration for providing service in a service concession arrangement, which is not an unconditional right to receive cash because the amounts are contingent on the extent of waste treatment/electricity generation. The right is recognised as an intangible asset at fair value upon initial recognition. Subsequent to initial recognition, the intangible asset is carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation of intangible asset arising from a service concession arrangement is calculated to write off their costs over their useful lives, using straight-line basis.

If the Group is paid partly by a financial asset and partly by an intangible asset, in which case, each component of the consideration is accounted for separately and the consideration received or receivable for both components shall be recognised initially at the fair value of the consideration received or receivable.

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 of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset 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 arrangement 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 profit or loss and other 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 2014, the carrying amount of amounts due from grantors for contract work is approximately HK$1,402,866,000 (2013: HK$656,882,000). During the years ended 31 December 2014 and 2013, there is no impairment recognised in profit or loss for amounts due from grantors for contract work.

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

As at 31 December 2014, the Group had deposits paid of aggregate carrying amount of approximately HK$50,063,000, net of impairment loss, (2013: HK$158,551,000) 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.

During the year ended 31 December 2014, the arbitration committee, 南昌仲裁委員會 (Nanchang Arbitration Committee) issued a verdict which determined that most of the deposits paid to Urban Construction Institute has been utilised by Urban Construction Institute for the construction of infrastructure and around HK$50,063,000 deposit can be refunded to the Company by means of transferring the construction contracts signed between Urban Construction Institute with two independent sub-constructors. The Company has lodged an appeal to the Nanchang Arbitration Committee and the final resolution is not yet released up to the date of this report. For details, it is disclosed in Note 24. An impairment loss on such deposit of RMB83,620,000 (approximately HK$104,918,000) (2013: RMB980,000 (approximately HK$1,237,000)) was recognised in the profit or loss during the year ended 31 December 2014. For the basis of impairment loss, please refer to Note 24.

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 2014, the carrying amount of deposits paid for construction of infrastructure in service concession arrangements, other than Urban Construction Institute, is approximately HK$51,595,000 (2013: HK$63,731,000).

Estimated impairment of property, plant and equipment and intangible assets

If there is any indication of impairment, determining the extent to which property, plant and equipment and intangible assets 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 2014, the carrying amount of property, plant and equipment and intangible assets are approximately HK$118,084,000 and HK$360,210,000 (2013: HK$63,850,000 and HK$21,660,000), respectively.

Estimated impairment of trade receivables

Included in the trade receivables of approximately HK$208,038,000 (2013: HK$152,128,000) are government subsidies due from a PRC government for treatment of certain waste electric and electronic products which is arising from subsidiaries engage in recycle and disassemble waste electrical and electronic equipment. Trade receivables of approximately HK$84,468,000 have been past due over 180 days, but less than 360 days, and HK$844,000 have been past due over 360 days, respectively as at 31 December 2014. A substantial negative impact on the Group's performance would result if the amount is not recoverable. The Group considers that the credit risk on the balances is limited because the customer is state-owned government.

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, convertible bonds and warrants disclosed in Notes 31, 32, 33 and 34, 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

	2014	2013
	HK$'000	*HK$'000*
Financial assets		
Loans and receivables (including cash and cash equivalents)	2,141,703	1,527,652
Financial liabilities		
Amortised cost	2,028,125	1,164,624
Embedded derivatives	—	149,112

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 associate, pledged bank deposits, bank balances and cash, trade payables, other payables, convertible notes, convertible bonds, embedded derivatives, warrants 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 and interest rate 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, convertible notes and warrants of the Group are denominated in HK$ and USD which exposes the Group to foreign currency risk. During the year ended 31 December 2014 and 2013, no sales and costs of sales of the Group are denominated in currencies other than the group 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:

	2014	2013
	HK$'000	*HK$'000*
Assets		
HK$	155,005	148,552
USD	39,032	—
EUR	100	—
Liabilities		
HK$	830,280	462,311
USD	62,000	—

Sensitivity analysis

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

The following table details the Group's sensitivity to a 5% (2013: 5%) increase and decrease in HK$ against RMB. 5% (2013: 5%) 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% (2013: 5%) change in foreign currency rates. A positive number below indicates an increase in loss of the Group where HK$ strengthens 5% (2013: 5%) against RMB. For a 5% (2013: 5%) weakening of HK$ against RMB, there would be an equal and opposite impact on the loss of the Group, and the balances below would be negative.

	HK$	
	2014	**2013**
	HK$'000	*HK$'000*
Increase in loss	33,764	15,688

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, 31, 32 and 33 for details). 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 31). 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 2014, 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 2014, 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 increase/decrease by HK$3,896,000 (2013: increase/decrease by HK$45,000).

Credit risk

As at 31 December 2014, 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's concentration of credit risk by geographical locations is mainly in China, which accounted for 100% (2013: 100%) of the total trade receivables as at 31 December 2014.

The Group has concentration of credit risk in amounts due from grantors for contract work of approximately HK$1,402,866,000 (2013: HK$656,882,000) as at 31 December 2014 representing guaranteed waste treatment fee to be received from seven (2013: five) 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 also has concentration of credit risk in deposits paid for construction of infrastructure in service concession arrangements as 49% (2013: 71%) 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 21. The estimated recoverable amount of the deposits of HK$50,063,000 (2013: HK$158,551,000) to the largest supplier, net of impairment loss of approximately RMB89,600,000 (approximately HK$112,000,000) (2013: RMB5,980,000 (approximately HK$7,395,000)), 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 limited (See Note 21). The directors, the associates and the shareholders have 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

As at 31 December 2014, the Company has net current liabilities of approximately HK$722,820,000. 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 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$62,529,000 for the year ended 31 December 2014 and had capital commitment of approximately HK$182,515,000 (see Note 42) and other commitment of approximately HK$130,983,000 (see Note 43) as at 31 December 2014. The directors of the Company are satisfied that the Group will have sufficient financial resources to meet its financial obligations as they fall due in the foreseeable future as 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., has granted the Group a three-year term facility of RMB1,300,000,000 (approximately HK$1,625,000,000) in March 2015.

Taking into account the Group's cash flow projection, including the term loan, unutilised banking facilities, the Group's ability to renew or refinance the banking facilities upon maturity and the Group's future capital expenditure in respect of its non-cancellable capital commitments, the Group considers that it has sufficient working capital to meet in full its financial obligations as they fall due for at least the next twelve months from the end of the reporting period.

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	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*
2014								
Trade and other payables	—	301,541	—	—	—	—	301,541	301,541
Warrant	—	—	79	—	—	—	79	79
Convertible bonds including embedded derivatives *(Note)*	22.54%	—	76,889	—	—	—	76,889	63,674
Financial guarantee contract	—	11,891	—	—	—	—	11,891	—
Borrowings								
— Fixed rate	5.68%	200,299	419,750	—	—	—	620,049	584,500
— variable rate	5.25%	2,500	470,527	416,198	325,150	260,086	1,474,461	1,078,332
		516,231	967,245	416,198	325,150	260,086	2,484,910	2,028,126
2013								
Trade and other payables	—	74,155	—	—	—	—	74,155	74,155
Convertible notes *(Note)*	—	—	16,000	—	—	—	16,000	14,177
Convertible bonds including embedded derivatives *(Note)*	17.41%	—	100,000	—	—	—	100,000	234,282
Financial guarantee contract	—	15,451	—	—	—	—	15,451	—
Borrowings								
— Fixed rate	5.90%	—	404,229	175,048	—	—	579,277	534,878
— variable rate	6.51%	—	10,746	55,354	230,184	301,953	598,237	456,244
		89,606	530,975	230,402	230,184	301,953	1,383,120	1,313,736

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 (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

The Group's derivative instrument is measured at fair value at the end of each reporting period. There is no derivative instrument as at 31 December 2014 and the Group's derivative instrument is embedded derivatives with fair value of HK$149,112,000 at 31 December 2013. The classification of the measure of the derivative instruments at 31 December 2013 using the fair value hierarchy was Level 3. The fair value of the derivative instrument was determined by using the Binomial Option Pricing Model with the inputs of share price, volatility, risk-free rate and dividend yield, etc.

There were no transfers into and out of level 3 in both years. For the reconciliation of Level 3 fair value measurement, please see Note 33.

The directors considered that the carrying amounts of the other financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

7. REVENUE

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

	2014	**2013**
	HK$'000	*HK$'000*
Provision of construction service under service concession arrangements	505,360	202,807
Provision of operation service under service concession arrangements	60,244	16,493
Effective interest income on amounts due from grantors for contract work *(Note)*	52,410	36,258
Provision of dismantling services	322,360	—
Consultancy fee income	23,234	26,853
	963,608	282,411

Note: Effective interest income on amounts due from grantors for contract work has been reclassified from other income, gains and losses to the Group's revenue to conform with the industry practice for the classification of the revenue generated under the Build-Operate-Transfer ("BOT") arrangements. Comparative figures have been re-presented to achieve consistent presentation.

8. SEGMENT INFORMATION

The Group has been operating with one reportable and operating segment, being the waste treatment and waste-to-energy business. 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 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	
	2014	**2013**	**2014**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Continuing operations				
The PRC (country of domicile)	963,608	282,411	775,222	510,274
Hong Kong	—	—	126	828
	963,608	282,411	775,348	511,102

Note: Non-current assets excluded financial instruments.

Information about major customers

During the year ended 31 December 2014, revenue from government authorities contributing over 98% (2013: 90%) of the total revenue of the Group amounted to approximately HK$940,374,000 (2013: HK$255,558,000) is attributable to the reportable segment of waste treatment and waste-to-energy business.

9. OTHER INCOME, GAINS AND LOSSES

	2014	2013
	HK$'000	*HK$'000*
Bank interest income	1,973	5,257
Interest income on amount due from an associate	1,264	1,124
Total interest income	3,237	6,381
Loss on disposal of property, plant and equipment	(474)	—
Impairment loss recognised in respect of deposits, prepayments and other receivables *(Note 26(b))*	(6,023)	(11,364)
Impairment loss recognised in respect of trade receivables *(Note 26(a))*	—	(7,526)
Impairment loss on deposits paid for construction of infrastructure in service concession arrangements *(Note 24)*	(104,918)	(1,237)
Reversal of penalty charges in relation to construction of waste-to-energy plant *(Note 21)*	—	103,409
Gain on redemption of convertible bonds *(Note 33)*	—	3,217
Impairment loss recognised in respect of amount due from an investee *(Note 27)*	—	(46,770)
Others	3,915	(230)
	(104,263)	45,880

10. FINANCE COSTS

	2014	2013
	HK$'000	*HK$'000*
Interests on:		
Borrowings wholly repayable within five years	47,393	20,482
Convertible bonds	14,288	24,212
Convertible notes	1,682	11,190
Bank charges	3,929	—
	67,292	55,884

11. LOSS BEFORE TAX

	2014	2013
	HK$'000	*HK$'000*
Loss before tax has been arrived at after charging (crediting):		
Directors' and chief executive's emoluments *(Note 13)*	6,265	4,783
Staff costs (excluding directors)		
— other staff costs	28,898	22,956
— retirement benefit scheme contribution	5,845	3,643
	34,743	26,599
Auditors' remuneration	3,852	3,706
Contract cost recognised for construction of waste treatment business (included in cost of sales)	505,360	202,807
Depreciation of property, plant and equipment	12,946	2,547
Amortisation of prepaid lease payments	1,567	55
Amortisation of intangible assets *(Note)*	17,972	1,171
Net exchange loss	102	492
Loss on disposal of property, plant and equipment	474	—
Reversal of provision for expected losses in relation to service concession arrangements (included in cost of sales) *(Note 21)*	—	(83,333)

Note: During the year ended 31 December 2014, approximately HK$17,099,000 and approximately HK$873,000 (2013: HK$nil and HK$1,171,000) of amortisation of intangible assets were included in cost of sales and administrative expenses, respectively.

12. INCOME TAX EXPENSE (CREDIT)

	2014	2013
	HK$'000	*HK$'000*
Current income tax:		
Other jurisdictions	8,010	—
Deferred tax *(Note 35)*	(2,930)	(1,846)
	5,080	(1,846)

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.

One of the Group's subsidiary operating in PRC is eligible for certain tax holidays and concessions and are exempted from PRC income taxes for the year.

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

The tax expense (credit) for the year can be reconciled to the loss before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2014	2013
	HK$'000	*HK$'000*
Loss before tax	(57,449)	(44,408)
Tax at the domestic income tax rate of 25%	(14,362)	(11,102)
Tax effect of expenses not deductible for tax purpose	18,490	53,498
Tax effect of income not taxable for tax purpose	(35,545)	(56,705)
Tax effect of tax losses not recognised	19,827	10,630
Tax effect of share of profit of an associate	(1,026)	(2,889)
Tax effect of other deductible temporary differences not recognised	27,735	4,722
Utilisation of tax loss not recognised in prior years	(6,322)	—
Over-provision in prior years	(3,717)	—
Income tax expense (credit) for the year	5,080	(1,846)

Details of deferred taxation are disclosed in Note 35.

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the 9 (2013: 12) directors and the chief executive were as follows:

	Executive Directors					Independent Non-Executive Directors				
	Yu Changjian	Liu Xiaoguang	Cao Guoxian	Shen Jianping	Xue Huixuan	Pao Ping Wing	Cheng Kai Tai, Allen	Li Baochun	Chan Yee Wah	Total 2014
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* *(note f)*	*HK$'000*	*HK$'000*	*HK$'000* *(note e)*	*HK$'000*	*HK$'000*
2014										
Fee	—	—	—	—	—	300	300	—	300	900
Other emoluments										
Salaries and other benefits	2,340	390	1,950	390	295	—	—	—	—	5,365
Contribution to retirement benefit schemes	—	—	—	—	—	—	—	—	—	—
Total emoluments	2,340	390	1,950	390	295	300	300	—	300	6,265

	Executive Directors						Independent Non-Executive Directors					Non-Executive Director	
	Marcello Appella	Yu Changjian	Liu Xiaoguang	Cao Guoxian	Tang Zhi Bin	Shen Jianping	Xue Huixuan	Pao Ping Wing	Cheng Kai Tai, Allen	Li Baochun	Chan Yee Wah	Lim Jui Kian	Total 2013
	HK$'000 *(note a)*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* *(note b)*	*HK$'000* *(note d)*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* *(note c)*
2013													
Fee	—	—	—	—	—	—	—	216	216	—	216	145	793
Other emoluments													
Salaries and other benefits	—	1,800	300	1,500	—	—	390	—	—	—	—	—	3,990
Contribution to retirement benefit schemes	—	—	—	—	—	—	—	—	—	—	—	—	—
Total emoluments	—	1,800	300	1,500	—	—	390	216	216	—	216	145	4,783

Notes:

(a) Resigned on 6 June 2013.

(b) Retired on 27 June 2013.

(c) Resigned on 2 September 2013.

(d) Appointed on 23 December 2013.

(e) Resigned on 8 August 2014.

(f) Resigned on 27 October 2014.

Mr. Cao Guoxian is also the Chief Executive of the Company and his emoluments disclosed above include those for services rendered by him as the chief executive.

In the year ended 31 December 2013, two directors waived emoluments of HK$630,000 and the chief executive waived emoluments of HK$450,000.

Neither the chief executive nor any directors waived any emoluments during the year ended 31 December 2014.

14. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2013: two) were directors and the chief executive of the Company whose emoluments are included in the disclosures in Note 13. The emoluments of the remaining three (2013: three) individuals were as follows:

	2014	**2013**
	HK$'000	*HK$'000*
Salaries and other benefits	3,199	3,045
Retirement benefits scheme contributions	—	—
	3,199	3,045

Their emoluments are within the following bands:

	2014	**2013**
	Number of employees	*Number of employees*
Nil to HK$1,000,000	—	—
HK$1,000,001 to HK$1,500,000	3	3

No employees waived or agreed to waive any emoluments for the years ended 31 December 2014 and 2013. 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.

15. DIVIDENDS

No dividend was paid, or proposed during 2014, nor has any dividend been proposed since the end of the reporting period (2013: Nil).

16. LOSS PER SHARE

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

	2014 *HK$'000*	2013 *HK$'000*
Loss for the year attributable to owners of the Company for the purpose of basic loss per share	(68,266)	(124,370)
Effect of dilutive potential ordinary shares:		
Convertible bonds	(72,473)	—
Loss for the year attributable to owners of the Company for the purpose of diluted loss per share	(140,739)	(124,370)

Number of shares	**2014** '000	**2013** '000
Weighted average number of ordinary shares for the purpose of basic loss per share	4,667,697	3,301,638
Effect of dilutive potential ordinary shares:		
Convertible bonds	332,773	—
Weighted average number of ordinary shares for the purpose of diluted loss per share	5,000,470	3,301,638

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvement	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST							
At 1 January 2013	9,661	5,188	681	5,447	1,875	—	22,852
Exchange realignment	348	165	21	271	160	—	965
Additions	—	8	15	774	707	—	1,504
Acquired on acquisition of a subsidiary *(Note 38(b))*	38,410	—	6,754	2,190	877	294	48,525
Disposals	—	—	—	—	(167)	—	(167)
At 31 December 2013	48,419	5,361	7,471	8,682	3,452	294	73,679
Exchange realignment	(1,397)	(123)	(217)	(189)	(504)	(38)	(2,468)
Additions	28,038	—	10,529	7,890	6,686	2,954	56,097
Acquired on acquisition of subsidiaries *(Note 38(a))*	11,728	—	2,543	157	1,164	—	15,592
Disposals	(895)	(2,739)	—	(339)	(630)	—	(4,603)
At 31 December 2014	85,893	2,499	20,326	16,201	10,168	3,210	138,297
DEPRECIATION							
At 1 January 2013	798	2,345	28	3,624	92	—	6,887
Exchange realignment	82	103	2	110	98	—	395
Provided for the year	414	1,151	66	515	401	—	2,547
At 31 December 2013	1,294	3,599	96	4,249	591	—	9,829
Exchange realignment	(75)	(88)	(9)	(99)	(46)	—	(317)
Provided for the year	4,289	848	1,472	3,049	3,288	—	12,946
Disposals	(137)	(2,016)	—	(39)	(53)	—	(2,245)
At 31 December 2014	5,371	2,343	1,559	7,160	3,780	—	20,213
CARRYING VALUES							
At 31 December 2014	80,522	156	18,767	9,041	6,388	3,210	118,084
At 31 December 2013	47,125	1,762	7,375	4,433	2,861	294	63,850

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

18. INTANGIBLE ASSETS

	Service concession arrangement HK$'000 (Note a)	Licenses and franchises HK$'000 (Note b)	Technology know-how HK$'000 (Note c)	Total HK$'000
COST				
At 1 January 2013	—	—	6,848	6,848
Acquired on acquisition of a subsidiary *(Note 38(b))*	—	20,513	—	20,513
At 31 December 2013	—	20,513	6,848	27,361
Acquired on acquisition of subsidiaries *(Note 38(a))*	328,022	28,500	—	356,522
At 31 December 2014	328,022	49,013	6,848	383,883
AMORTISATION AND IMPAIRMENT				
At 1 January 2013	—	—	4,530	4,530
Provided for the year	—	—	1,171	1,171
At 31 December 2013	—	—	5,701	5,701
Provided for the year	5,377	11,722	873	17,972
At 31 December 2014	5,377	11,722	6,574	23,673
CARRYING VALUES				
At 31 December 2014	322,645	37,291	274	360,210
At 31 December 2013	—	20,513	1,147	21,660

Notes:

(a) Intangible assets arising from service concession arrangement represent the conditional rights for 惠州廣惠能源有限公司 (Huizhou Guanghui Energy Company Limited) ("Huizhou Guanghui"), a newly acquired subsidiary during the year to operate under a service concession arrangement. Revenue and costs relating to the operation phase of the arrangement are accounted for in accordance with HKAS 18 Revenue which revenue is measured at the fair value of the consideration received or receivable.

(b) Licenses and franchises represent the rights to receive government subsidies for the treatment of certain waste electric and electronic products, namely television, refrigerator, washing machine, air-conditioner and microcomputer which are included in the 廢棄電器電子產品處理目錄 (第一批) (first batch of Waste Electric and Electronic Products Treatment Catalog).

(c) Technology know-how are 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.

All intangible assets are amortised on a straight-line basis over the following periods:

Service concession arrangement	30.50 years
Licenses and franchises	1.75 to 5.38 years
Technology know-how	5 to 10 years

19. GOODWILL

	HK$'000
COST	
At 1 January 2013, 31 December 2013	1,068,010
Arising on acquisition of a subsidiary *(Note 38(b))*	13,810
At 31 December 2013 and 31 December 2014	1,081,820
IMPAIRMENT	
At 1 January 2013, 31 December 2013 and 31 December 2014	1,068,010
CARRYING VALUES	
At 31 December 2014	13,810
At 31 December 2013	13,810

20. PREPAID LEASE PAYMENTS

	2014	**2013**
	HK$'000	*HK$'000*
Analysed for reporting purposes as:		
Current asset	1,238	1,270
Non-current asset	69,121	62,525
	70,359	63,795
The Group's prepaid lease payments comprise:		
Medium-term leasehold land in the PRC	70,359	63,795

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.

The Group has pledged prepaid lease payment with a net book value of approximately HK$44,976,000 (2013: HK$47,104,000) to secure the borrowing granted to the Group.

21. AMOUNTS DUE FROM GRANTORS FOR CONTRACT WORK

	2014	**2013**
	HK$'000	*HK$'000*
Analysed for reporting purpose as:		
Current asset	72,695	15,682
Non-current asset	1,330,171	641,200
	1,402,866	656,882

Amounts due from grantors for contract work represent 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 BOT basis, plus attributable profits on the services provided. Revenues and costs relating to the construction phase of the contract are accounted for in accordance with HKAS 11. Revenues 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, 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 rate is ranged from 3.6% to 13.58% during the year ended 31 December 2014 and 2013.

As at 31 December 2014, the major terms of the Group's significant 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	Waste treatment	Electricity generation	Status	Balance as at 31 December 2014 HK$'000	Balance as at 31 December 2013 HK$'000
北京一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)	January 2014 to December 2038 (25 years) *(Note 3)*	930 tonnes *(Note 3)*	36 million kWh	Under construction *(Note 3)*	282,616	194,358
南昌百碼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 *(Note 4)*	681,006	254,904
都勻市科林環保有限公司 (Duyun Kelin Environment Company Limited) ("Duyun Kelin")	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	145,359	141,914
甕安縣科林環保有限公司 (Weng'an Kelin Environment Company Limited) ("Weng'an Kelin")	甕安縣生活垃圾填埋場 (Weng'an Municipal Sold 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	Operating	58,061	51,903
惠州廣惠能源有限公司 (Huizhou Guanghui Energy Company Limited) (Huizhou Guanghui) *(Note 1)*	惠州市生活垃圾焚燒發電廠 (Huizhou Municipal Solid Waste Incineration Power Generation Plant)	Gonglian Village, Huizhou	惠州市市容環境衛生管理局 (Huizhou Environmental and Hygiene Control Authority)	*(Note 5)*	1,600 tonnes	161 million kWh	Operating	175,538	N/A

Notes:

1. The subsidiary was acquired during the year ended 31 December 2014 as detailed in Note 38(a).

2. The subsidiaries have not yet obtained approval for commercial operation at 31 December 2014.

3. On 25 July 2013, the Company received a notice named "Notice of Accelerating the Construction of Dongcun Waste Sorting Comprehensive Treatment Plant" ("Notice") dated on 23 July 2013 from Beijing Municipal Administration Committee in relation to the amendments of the operational terms and conditions of Beijing Plant, in which the Group currently owns 60% interest. The Notice states that (i) the commencement of the concessionary period will be changed from 31 December 2008 to 1 January 2014 while the concessionary period will be ended at 31 December 2038 instead of 31 December 2034 as stated in the original concessionary agreement; (ii) the minimum guaranteed volume of municipal waste will increase from 360 tonnes to 500 tonnes per day; and (iii) the waste treatment capacity will increase from 650 tonnes per day to 930 tonnes per day.

4. The waste treatment and waste-to-energy plant has started trail run after the year ended 31 December 2014.

5. Under the cooperation agreement signed on 3 August 2001, the existing plant has a service concession period for 27 years. A new cooperation agreement in respect of the construction and operation of a new waste treatment plant has been signed on 20 August 2013, superseding the one signed on 3 August 2001. Pursuant to the new cooperation agreement, the existing waste treatment plant will continue to operate not more than three years following the signing of the new cooperation agreement, by then it will be demolished and replaced by the new treatment plant for a term of 30 years.

For the year ended 31 December 2014, the Group acquired the entire interest of 葫蘆島康達錦程環境治理有限公司 (Huludao Kangte Jincheng Environmental Management Company Limited) ("Huludao Kangte") (Note 38(a)), which has a service concession arrangement in Huludao. The project is still at a preliminary stage. Amount due from grantors for contract work of approximately HK$50,952,000 has been recognised at acquisition.

For the year ended 31 December 2013, the Group acquired 60% equity interest of 新鄉市首拓環保能源有限公司 (Xinxiang Capital Solid Energy Limited) ("Xinxiang Capital Solid") (Note 38(b)), which has a service concession arrangement in Henan. The project is still at a preliminary stage. Amount due from grantors for contract work of approximately HK$13,803,000 has been recognised at 31 December 2013.

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 some service concession arrangements, 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 Group recognised revenue from construction services of approximately HK$505,360,000 (2013: HK$202,807,000) by reference to the stage of completion of the construction work and revenue from operation services of approximately HK$60,244,000 (2013: HK$16,493,000).

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. Up to the year ended 31 December 2012, a total of approximately HK$90,088,000 was recognised as provision for expected loss in construction. Pursuant to the Notice received on 25 July 2013, the commencement of the concessionary period will be changed from 31 December 2008 to 1 January 2014 while the concessionary period will be ended at 31 December 2038 instead of 31 December 2034 as stated in the original concessionary agreement. Further, the minimum guaranteed volume of municipal waste will increase from 360 tonnes to 500 tonnes per day. The management has reassessed the revenue that is expected to be generated from the operation of Beijing Plant and the budgeted cost to be incurred and a reversal of approximately HK$83,333,000 provision for expected loss was thus made for the year ended 31 December 2013. No such reversal of provision was made for the year ended 31 December 2014. Movement of the provision for expected loss relating to service concession arrangements is detailed in Note 30(c).

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 and up to the year ended 31 December 2012, provision of penalty of approximately HK$101,886,000 was recognised. Pursuant to the Notice, the concessionary period is now commencing from January 2014. After seeking legal opinion provided by an independent lawyer, the directors of the Company considers that it is not likely for the grantor to charge the penalty on the Company and therefore provision made in prior years of approximately HK$103,409,000 are fully reversed during the year ended 31 December 2013. No such reversal of provision was made for the year ended 31 December 2014. Movement of the provision for penalty charge in construction services is detailed in Note 30(c).

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 2014, provision of HK$1,000,000 (2013: HK$1,025,000) has been recognised in respect of the contractual obligations to maintain or restore these waste treatment and waste-to-energy plants to specified conditions.

22. AVAILABLE-FOR-SALE INVESTMENT

	2014	2013
	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 and 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 2014 and 2013 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 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.

In prior years, 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.

23. INTEREST IN AN ASSOCIATE

	2014 *HK$'000*	2013 *HK$'000*
Cost of investment in an associate		
— Unlisted	75,021	75,021
Share of post-acquisition profits, net of dividend received	29,020	31,537
Share of other comprehensive (expense) income	4,049	10,161
	108,090	116,719

At 31 December 2014, the Group held approximately 46% (2013: 46%) equity interest in 深圳粵能環保再生能源有限公司 (Shenzhen Yueneng Environmental Recycling Energy Limited) ("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.

Summarised financial information of an associate

Summarised financial information in respect of the Group's associate is set out bellow. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with HKFRSs.

SZ Yueneng is accounted for using the equity method in these consolidated financial statements.

	2014 *HK$'000*	2013 *HK$'000*
Current assets	34,318	29,288
Non-current assets	365,662	407,966
Current liabilities	(64,152)	(46,554)
Non-current liabilities	(100,850)	(136,963)
Revenue	58,177	57,697
Profit and total comprehensive income for the year	8,918	25,122

Reconciliation of the above summarised financial information to the carrying amount of the interest in an associate recognised in the consolidated financial statements:

	2014 *HK$'000*	2013 *HK$'000*
Net assets of the associate	234,978	253,737
Proportion of the Group's ownership interest in SZ Yueneng	46%	46%
Carrying amount of the Group's interest in SZ Yueneng	108,090	116,719

24. 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$50,063,000, net of impairment loss (2013: HK$158,551,000). 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.

During the year ended 31 December 2013, the Nanchang 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. During the year ended 31 December 2013, Urban Construction Institute submitted a restitution to Nanchang Arbitration Committee for RMB5,980,000 (approximately HK$7,667,000) as a compensation of the expenses incurred.

During the year ended 31 December 2014, the Nanchang Arbitration Committee further issued a verdict which determined that most of the deposit paid to Urban Construction Institute for the construction of waste treatment and waste-to-energy plant has been utilised by Urban Construction Institute and approximately HK$50,063,000 deposit can be refunded to the Company by means of transferring the construction contracts signed between Urban Construction Institute with two independent sub-contractors. The Company has lodged an appeal to the Nanchang Arbitration Committee and the final resolution is not yet released and the amount of deposits refundable from Urban Construction Institute is yet to be finalised. The Group has thus recognised an impairment loss on such deposit of RMB83,620,000 (approximately HK$104,918,000) in the profit or loss during the year ended 31 December 2014, after taking into account the verdict issued and the legal opinion provided by the independent lawyer.

25. INVENTORIES

	2014	2013
	HK$'000	*HK$'000*
Raw materials	11,118	7,235
Work-in-progress	262	—
Finished goods	14,914	16,737
	26,294	23,972

26. TRADE RECEIVABLES AND DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2014	2013
	HK$'000	*HK$'000*
Trade receivables *(Note a)*	226,397	185,229
Less: allowance for doubtful debts	(8,741)	(8,452)
	217,656	176,777
Deposits, prepayments and other receivables		
Advances to suppliers *(Note b)*	40,640	47,390
Advance to Huizhou Guanghui *(Note c)*	—	39,073
Deposit for acquisition *(Note d)*	10,875	10,256
Others	8,129	7,951
	59,644	104,670
Analysed for reporting purpose as:		
Current asset	55,269	94,414
Non-current asset	4,375	10,256
	59,644	104,670

(a) Trade receivables

The Group allows an average credit period normally 180 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.

	2014	2013
	HK$'000	*HK$'000*
0–90 days	76,898	24,154
91–180 days	55,446	495
181–360 days	84,468	152,128
Over 360 days	844	—
	217,656	176,777

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 government subsidies provided by the PRC government for treatment of certain waste electric and electronic products with an aggregate carrying amount of HK$85,312,000 (2013: HK$152,128,000), which are past due as at the reporting date for which the Company has not provided for impairment loss. The Group does not hold any collateral over these balances. In the opinion of the directors of the Company, the credit risk on these balances are limited because the customer is state-owned government.

During the year ended 31 December 2013, an impairment loss of approximately HK$7,526,000 in respect of trade receivable due from 北京市大興區政府採購中心 (Beijing Da Xing Government Procurement Center), is recognised in profit or loss after consideration of the credit quality of this individual customer based on the amounts subsequently settled after year end, the ongoing relationship with the Group and the aging of this receivable.

Aging of trade receivables which are past due but not impaired

	2014	**2013**
	HK$'000	*HK$'000*
Overdue by:		
181–360 days	84,468	152,128
Over 360 days	844	—
	85,312	152,128

Movement in the allowance for doubtful debts

	2014	**2013**
	HK$'000	*HK$'000*
Balance at the beginning of the year	8,452	1,041
Exchange realignment	289	(115)
Impairment losses recognised	—	7,526
Balance at the end of the year	8,741	8,452

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of approximately HK$8,741,000 (2013: HK$8,452,000) 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.

(b) Advances to suppliers

During the year ended 31 December 2014, impairment loss of HK$6,023,000 (2013: HK$11,364,000) 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.

(c) Advance to Huizhou Guanghui

Amount represented the advance to Huizhou Guanghui as at 31 December 2013. The acquisition of Huizhou Guanghui has been completed during the year ended 31 December 2014.

(d) Deposit for acquisition

During the year ended 31 December 2014, a deposit of HK$4,375,000 was paid for a potential acquisition of equity interests in a company with BOT project. The amount is therefore classified as non-current assets. In addition, HK$6,500,000 was paid for a BOT project tendering and expected to be refunded in the coming year.

As of 31 December 2013, HK$10,875,000 was paid as part of the consideration for the acquisition of equity interests of Huizhou Guanghui based on the acquisition agreement dated on 9 August 2013 (Note 38(a)). The acquisition has been completed during the year ended 31 December 2014.

27. AMOUNT DUE FROM AN INVESTEE

	2014	**2013**
	HK$'000	*HK$'000*
Trade receivable		
SH Biomax GEP *(Note)*	20,300	20,300
Other receivable		
SH Biomax GEP *(Note)*	41,404	41,404
Less: impairment loss recognised *(Note)*	(61,704)	(61,704)
	—	—

Note:

The receivables due from SH Biomax GEP, an available-for-sale investment of the Group, are past due over 5 years (2013: over 4 year). The other receivable due from SH Biomax GEP is unsecured and interest free.

During the year ended 31 December 2013, SH Biomax GEP had liquidity problems and cannot repay its liabilities as they fall due. As a result, its major shareholder, which is also its largest creditor, filed a liquidation application to the 上海市普陀區人民法院 (Shanghai Putuo District People's Court) to wind up SH Biomax GEP.

As a result, the directors of the Company made a full impairment loss on the amount due from SH Biomax GEP given that SH Biomax GEP is under liquidation and the recovery of such advance is expected to be remote.

RMB37,042,000 (approximately HK$46,770,000) impairment loss was recognised in the profit and loss during the year ended 31 December 2013 and no amount due from SH Biomax GEP as at 31 December 2013 and 2014.

28. AMOUNT DUE FROM AN ASSOCIATE

During the year ended 31 December 2013, an associate entered into a supplementary agreement with the Group to extend the loan agreement entered in June 2012 for the advance of RMB11,100,000 (approximately HK$14,883,000) for 12 months from June 2013 to June 2014. The interest rate is adjusted to PRC Benchmark Loan Rate plus 20% per annum under the supplementary agreement.

During the year ended 31 December 2014, an associate entered into another supplementary agreement with the Group to extend the advance of RMB11,100,000 (approximately HK$13,875,000) for 12 months. The interest rate remained at PRC Benchmark Loan Rate plus 20% per annum.

Included in the amount due from an associate also represents the dividend distributed by the associate to the Group of RMB7,272,000 (approximately HK$9,124,000).

29. PLEDGED BANK DEPOSITS/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% (2013: 0.01% to 0.40%) per annum.

Pledged bank deposits represents deposits pledged to banks to secure short-term banking facilities and are therefore classified as current assets. The pledged deposits carry average fixed interest rate of 1.14% per annum for the year ended 31 December 2014.

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:

	2014	2013
	HK$'000	*HK$'000*
0–90 days	91,823	553
91–180 days	171	—
181–360 days	18,697	6,251
Over 360 days	21,606	23,210
	132,297	30,014

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

	2014	2013
	HK$'000	*HK$'000*
Amount due to related parties of vendors of Huizhou Guanghui *(Note)*	119,979	—
Accrued interest	19,582	1,474
Accrued professional fee	3,988	4,921
Business tax payable	1,563	1,717
Accrued payroll	1,884	4,382
Accrued purchases	138,985	67,135
Others	36,853	20,554
	322,834	100,183

Note: Amount represented the payable to the related parties of Richway Investment Management Limited and Huizhou Energy(s) Pte. Limited, vendor of Huizhou Guanghui. The payable amount mainly represent the construction cost of the existing plant operating under the BOT.

(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 2013	90,088	101,886	995	192,969
Reversals	(83,333)	(103,409)	—	(186,742)
Exchange realignment	1,490	1,523	30	3,043
At 31 December 2013	8,245	—	1,025	9,270
Exchange realignment	(207)	—	(25)	(232)
At 31 December 2014	8,038	—	1,000	9,038

As at 31 December 2012, provision for expected losses in relation to service concession arrangements of approximately HK$90,088,000 (see Note 21 for the basis of determination) and provision for penalty charges in relation to construction of waste-to-energy plant of approximately HK$101,886,000 (see Note 21) to the grantor arise from the delay of commencement of operation of a waste treatment and waste-to-energy plant were recognised.

With the issue of the Notice as detailed in Note 21, provision for expected losses of HK$83,333,000 and provision for penalty charges of HK$103,409,000 previously recognised were reversed during the year ended 31 December 2013.

As at 31 December 2013, provision of HK$1,000,000 (2013: HK$1,025,000) has been recognised in respect of the contractual obligations to maintain or restore these waste treatment and waste-to-energy plants to specified conditions. The amount of provision for maintenance for the year ended 31 December 2014 was insignificant.

(d) Deferred income

During the year ended 31 December 2014, NC Biomax GE, a subsidiary of the Company, received a government subsidy for its capital expenditure and expansion on the waste treatment and waste-to-energy plant. As at 31 December 2014, the plant was still under construction and the government subsidy was therefore recognised as deferred income and would be amortised over the concession period when the plant commences its operation.

31. BORROWINGS

	2014	**2013**
	HK$'000	*HK$'000*
Bank loans	1,107,082	651,948
Other loans *(Note)*	555,750	339,174
Borrowings	1,662,832	991,122
Secured loan	1,598,332	936,307
Unsecured loan	64,500	54,815
	1,662,832	991,122

Note:

Included in other loans, amounting to HK$553,250,000 (2013: HK$336,609,000), are loans advanced from related parties.

In October 2013, the Group entered into a fixed-rate long-term loan agreement with the substantial shareholder of the Company, Beijing Capital (HK) Limited ("Beijing Capital (HK)"), of HK$220,000,000, that will be due in October 2015. HK$160,000,000 has been drawn down as at 31 December 2013 and the remaining amount of HK$60,000,000 was drawn down during the current year. The balance is secured by the equity interest of subsidiaries and an associate held by the Group and carries interest at a fixed rate of 5.13% per annum.

During the year ended 31 December 2014, the Group entered into a fixed-rate short-term loan agreement of HK$150,000,000 with Beijing Capital (HK). The loan will be matured in September 2015. The balance is secured by the equity interest of a subsidiary held by the Group and carries interest at fixed rate of 5.50% per annum.

The Group entered has also entered into a fixed-rate short-term loan agreement of US$8,000,000 (approximately HK$62,000,000) with Beijing Capital (HK) during the year ended 31 December 2014. The loan will be repayable on demand as the Group and Beijing Capital (HK) have mutually agreed to extend the loan until Beijing Capital (HK) demands for repayment. The balance is unsecured and carries interest at a fixed rate of 5.50% per annum.

During the year ended 31 December 2012, the Group entered into three fixed-rate loan agreements ("Original Loan Agreements") with Beijing Capital (HK) of RMB40,000,000, RMB21,000,000 and RMB36,000,000 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 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. The three fixed-rate loan amounted to RMB97,000,000 (approximately HK$121,250,000) as at 31 December 2014 will be repayable on demand as the Group and Beijing Capital (HK) have mutually agreed to extend the loan until Beijing Capital (HK) demands for repayment.

The remaining borrowing represents the variable-rate borrowing loan of HK$2,500,000, that will be repayable on demand with a non-controlling shareholder of a subsidiary. The balance is unsecured and carries interest at PRC Benchmark Loan Rate.

	2014	**2013**
	HK$'000	*HK$'000*
Carrying amount repayable:		
Within one year	1,025,913	384,045
More than one year, but not exceeding two years	74,263	186,321
More than two years, but not exceeding three years	87,650	33,859
More than three years, but not exceeding four years	116,975	47,590
More than four years, but not exceeding five years	120,525	73,821
More than five years	237,506	265,486
	1,662,832	991,122
Less: Amounts due within one year shown under current liabilities	(1,025,913)	(384,045)
Amounts shown under non-current liabilities	636,919	607,077

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

	2014	2013
	HK$'000	*HK$'000*
Fixed-rate borrowings:		
Within one year	584,500	374,878
More than one year, but not exceeding two years	—	160,000
	584,500	534,878
Variable-rate borrowings:		
Within one year	441,413	9,167
More than one year, but not exceeding two years	74,263	26,321
More than two years, but not exceeding three years	87,650	33,859
More than three years, but not exceeding four years	116,975	47,590
More than four years, but not exceeding five years	120,525	73,821
More than five years	237,506	265,486
	1,078,332	456,244

As at 31 December 2013, the Group's fixed rate bank borrowings of (i) approximately HK$40,577,000 was secured by the pledged bank deposit of approximately HK$57,692,000 held by a wholly-owned subsidiary; (ii) approximately HK$21,154,000 was secured by corporate guarantee of a related party of a former shareholder and (iii) approximately HK$25,641,000 was secured by land use rights of a former shareholder. With the repayment of the respective loans during the year ended 31 December 2014, these securities were released.

As at 31 December 2014, the Group's fixed rate bank borrowings of approximately HK$31,250,000 (2013: HK$110,897,000) was secured by the prepaid lease payment with carrying amount of approximately HK$44,976,000 (2013: HK$47,104,000) and (ii) HK$372,000,000 (2013: nil) was secured by the pledged deposit of HK$22,077,000 (2013: nil) held by the Company.

As at 31 December 2014, the Group's variable rate borrowings of (i) approximately HK$375,000,000 (2013: nil) was secured by a corporate guarantee from Beijing Capital Co., Ltd; (ii) approximately HK$60,900,000 (2013: approximately HK$69,064,000) was secured by a corporate guarantee of a non-controlling shareholder of a subsidiary; (iii) approximately HK$90,431,000 (2013: nil) was secured by the BOT contract that gives right to the Group to operate the waste treatment project in Beijing; (iv) approximately HK$177,500,000 (2013: nil) was secured by the BOT contract that gives right to the Group to receive waste treatment fee and electricity tariff in Huizhou; (v) approximately HK$121,250,000 (2013: approximately HK$124,359,000) was secured by the entire equity interest of a subsidiary held by the Group; (vi) HK$220,000,000 (2013: HK$160,000,000) was secured by the equity interest of subsidiaries and an associate and (vii) HK$150,000,000 (2013: nil) was secured by the equity interest of a subsidiary held by the Group.

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

	2014	2013
Effective interest rate:		
Fixed-rate borrowings	4.0%–7.22%	4.0%–8.53%
Variable-rate borrowings	PRC Benchmark Loan Rate	PRC Benchmark Loan Rate

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

	2014	**2013**
	HK$'000	*HK$'000*
USD	62,000	—
HK$	742,000	212,250

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

	2014	**2013**
	HK$'000	*HK$'000*
Floating rate		
— expiring within one year	34,569	—
Fixed rate		
— expiring within one year	—	136,603
— expiring beyond one year	—	384,615
	34,569	521,218

32. 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") to satisfy part of the consideration for the acquisition of Smartview Harvestmen Holdings Limited 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 on a fully diluted basis. Pursuant to the terms of Convertible Notes, holders of the Convertible Notes 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 bear zero interest and will mature on 10 December 2014, the date on which any outstanding principal amount of the Convertible Notes shall be redeemed at par if not converted before the maturity date. The Company is not entitled to redeem the Convertible Notes at any time before the maturity date. Pursuant to the terms of Convertible Notes, the Convertible Notes 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 shall have the right at any time after the issue date of the Convertible Notes to convert the whole or part of the outstanding principal amount of the Convertible Notes 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 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, and was adjusted successively to HK$0.85 per share on 8 July 2014 upon completion of the rights issue (Note 36(b)).

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.

The Convertible Notes 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 is 13.699% per annum.

During the year ended 31 December 2013, Convertible Notes with principal amounts of HK$177,000,000 were offset by rights issue.

At 31 December 2013, Convertible Notes with principal amounts of HK$16,000,000 were outstanding with Winner Performance and the outstanding amount was redeemed on date of maturity (10 December 2014).

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

	HK$'000
Liability component	
At 1 January 2013	150,400
Effective interest charged to profit or loss *(Note 10)*	11,190
Transfer to equity upon rights issue	(147,413)
At 31 December 2013	14,177
Effective interest charged to profit or loss *(Note 10)*	1,682
Transfer to convertible notes reserve	141
Redemption on maturity	(16,000)
At 31 December 2014	—
Equity component	
At 1 January 2013 and 31 December 2013	141
Redemption on maturity	(141)
At 31 December 2014	—

33. 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.

On 4 June 2013, the Group has paid a redemption amount of approximately HK$210,475,000 for the redemption of Convertible Bonds I with a principal amount of HK$156,000,000, which includes liability component of HK$191,242,000 and embedded derivatives of HK$22,450,000 as at 4 June 2013. Gain on redemption of Convertible Bonds I of HK$3,217,000 was resulted.

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 conversion price for the Convertible Bonds II was adjusted to HK$0.29 per share on 8 July 2013 upon the completion of rights issue (Note 36(b)).

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 measured at fair value with changes in fair value recognised in profit or loss.

On 4 November 2014, Beijing Capital (HK) converted Convertible Bonds II with the principal amount of HK$22,000,000 at HK$0.29 per share.

On 19 November 2014, the Company entered into a supplemental deed with Beijing Capital (HK) to amend the terms and conditions of the Convertible Bond II, where (i) the maturity date of the Convertible Bond II will be extended for 12 months and the conversion period will accordingly be extended for 12 months to 31 December 2015; and (ii) the denominations of the Convertible Bond II will be amended such that the denomination of the principal amount, the conversation price of the Convertible Bond II, the integral multiple of the principal amount of conversion of the Convertible Bond II, will be converted from Hong Kong Dollars to RMB, and the principal amount, the conversation price and the integral multiple of the principal amount for conversion of the Convertible Bond II will be converted to the equivalent RMB amount calculated based on the official mid-exchange rate between Hong Kong Dollars and RMB as of the effective date of the amendment terms, as quoted on the China Foreign Exchange Trading System; and (iii) subject to the other terms and conditions of the Convertible Bond II, payment of the sums payable under the Convertible Bonds II shall be made in RMB, unless otherwise agreed by Beijing Capital (HK).

The amendment on the terms and conditions of the Convertible Bonds II was passed on an extraordinary general meeting held on 29 December 2014. The conversation price of the Convertible Bonds II was adjusted to RMB0.229 by converted HK$0.29 by the exchange rate of HK$1 to RMB0.78861. For accounting purposes, the conversion option is classified as equity instrument and the changes in fair value are not recognised in profit or loss.

Under the amendment, the Convertible Bonds II are deemed as redemption and the amended Convertible Bonds II ("Convertible Bonds III") is deemed to be issued. Gain on fair value change of embedded derivatives amount to HK$86,762,000 was recognised upon the amendment on the terms and conditions of the Convertible Bonds II. The effective interest rate of the liability components of Convertible Bond III is 22% per annum.

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 II	Convertible Bonds Bonds III	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Liabilities component				
At 1 January 2013	179,661	72,539	—	252,200
Redemption	(191,242)	—	—	(191,242)
Effective interest charged to profit or loss *(Note 10)*	11,581	12,631	—	24,212
At 31 December 2013	—	85,170	—	85,170
Conversion	—	(21,458)	—	(21,458)
Effective interest charged to profit or loss *(Note 10)*	—	14,288	—	14,288
Amendment *(Note)*	—	(78,000)	63,674	(14,326)
At 31 December 2014	—	—	63,674	63,674
Option component				
At 1 January 2013	26,508	27,644	—	54,152
Redemption	(22,450)	—	—	(22,450)
(Gain) loss on fair value change of embedded derivatives	(4,058)	121,468	—	117,410
At 31 December 2013	—	149,112	—	149,112
Conversion	—	(24,695)	—	(24,695)
Gain on fair value change of embedded derivatives	—	(86,762)	—	(86,762)
Amendment *(Note)*	—	(37,655)	—	(37,655)
At 31 December 2014	—	—	—	—

Note: Upon the amendment on the terms and conditions, Convertible Bonds II is deemed as redemption and Convertible Bonds III are deemed to be issued. The value of the liability component and conversion option component of Convertible Bonds II is adjusted to reflect the fair value at the date of amending the terms and conditions and a fair value gain of HK$86,762,000 has thus been recognised. The liability component of Convertible Bonds III is HK$63,674,000, and its conversion option component of HK$51,981,000 is classified as equity instrument and recognised in the convertible bonds equity reserve.

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 29 December 2014 (date of amendment of the terms and conditions of Convertible Bonds II) and 31 December 2013 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	**At redemption**
Share price	HK$0.265
Risk-free rate	0.214%
Time to maturity	1.79 years
Dividend yield	0%
Volatility	69.56%

Convertible Bonds II	**31 December 2013**
Share price	HK$0.68
Risk-free rate	0.19%
Time to maturity	1 year
Dividend yield	0%
Volatility	76.68%

Convertible Bonds III	**29 December 2014**
Share price	HK$0.43
Risk-free rate	0.13%
Time to maturity	1 year
Dividend yield	0%
Volatility	48.5%

34. WARRANTS

On 31 March 2014, the Company entered into a placing agreement with an independent placing agent (“Placing Agent”) in relation to the private placing of up to 370,000,000 unlisted warrants (“Warrants”), with placing price (“Placing Price”) of HK$0.01 per Warrant, conferring rights to subscribe for up to 370,000,000 new ordinary shares of the Company at a subscription price of HK$0.8 per share, which are exercisable immediately after the date of issue of the Warrants up to 22 December 2014.

On 1 April 2014, the Company and the Placing Agent entered into a supplemental agreement to (i) revise the Placing Price from HK$0.01 per Warrant to HK$0.012 per Warrant; (ii) extend the subscription period of the Warrants from a period from the date of issue of the Warrants up to 22 December 2014 to a period of 12 months from 14 April 2014 to 14 April 2015, both days inclusive.

The placing of the Warrants was completed on 14 April 2014 and was classified as derivatives. The proceeds from the placing of approximately HK$3,940,000 (net of issuance cost of HK$500,000), were used as general working capital of the Company.

The fair value of the Warrants was remeasured at the end of the reporting period at approximately HK$79,000 and gain of approximately HK$3,861,000 arising from the change in fair value was charged in the statement of profit or loss during the year ended 31 December 2014.

For the year ended 31 December 2014, no registered holders of the warrants exercised their right to subscribe any shares of the Company.

35. DEFERRED TAXATION

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

	Convertible notes	**Service concession arrangements**	**Intangible asset**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2013	(7,150)	(921)	—	(8,071)
Exchange realignment	—	(432)	—	(432)
Arising on acquisition of a subsidiary *(Note 38(a))*	—	—	(5,128)	(5,128)
Release upon rights issue	4,882	—	—	4,882
Credit to profit or loss	1,846	—	—	1,846
At 31 December 2013	(422)	(1,353)	(5,128)	(6,903)
Exchange realignment	121	241	—	362
Arising on acquisition of a subsidiary *(Note 38(a))*	—	—	(7,125)	(7,125)
Release upon retirement of convertible notes	301	—	—	301
Credit to profit or loss	—	—	2,930	2,930
At 31 December 2014	—	(1,112)	(9,323)	(10,435)

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:

	2014	**2013**
	HK$'000	*HK$'000*
Deferred tax liabilities	(10,435)	(6,903)

The Group has unused tax losses of approximately HK$379,936,000 (2013: HK$300,628,000) available for offset against future profits. The tax loss arising from PRC subsidiaries of approximately RMB231,909,000 (2013: RMB137,091,000) can be carried forward for five years and will be expired during 2015 to 2019 (2013: 2014 to 2018). Other tax losses may be carried forward indefinitely.

At the end of the reporting period, the Group has deductible temporary differences of approximately HK$306,276,000 (2013: HK$195,335,000) in respect of impairment loss recognised on trade receivables, deposits, prepayments and other receivables. 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.

36. SHARE CAPITAL

	Number of shares	Amount
		HK$'000
Ordinary shares of HK$0.1 each		
Authorised:		
At 1 January 2013, 31 December 2013 and 31 December 2014	6,000,000,000	600,000
Issued and fully paid:		
At 1 January 2013	1,862,257,039	186,226
Issue of shares under rights issue *(Note (a))*	2,793,385,557	279,338
At 31 December 2013	4,655,642,596	465,564
Issue of shares under redemption of convertible bond *(Note (b))*	75,862,068	7,586
At 31 December 2014	4,731,504,664	473,150

Note:

The following changes in the share capital of the Company took place during the years ended 31 December 2014 and 2013:

(a) During the year ended 31 December 2013, 2,793,385,557 ordinary shares of the Company were issued under a rights issue at the subscription price of HK$0.20 per share on the basis of three rights shares for every two existing shares. Pursuant to the rights issue, HK$177,000,000 had been paid by off-setting the same amount out of the Convertible Note of Beijing Capital (HK). After the set-off arrangement, the Convertible Note of Beijing Capital (HK) is fully set-off and redeemed.

(b) During the year ended 31 December 2014, convertible bond with principal amount of HK$22,000,000 were converted to share capital (Note 33).

37. NON-CONTROLLING INTERESTS

	Share of net assets (liabilities) of subsidiaries HK$'000	Share of translation reserve HK$'000	Total HK$'000
At 1 January 2013	(11,626)	2,095	(9,531)
Share of profit for the year	81,808	—	81,808
Share of translation reserve for the year	—	453	453
Non-controlling interests arising on additional acquisition of a subsidiary	6,580	—	6,580
Non-controlling interests arising on the acquisition of subsidiaries *(see Note 38(b))*	118,446	—	118,446
At 31 December 2013	195,208	2,548	197,756
Share of profit for the year	5,737	—	5,737
Share of translation reserve for the year	—	(4,538)	(4,538)
Non-controlling interests arising on additional acquisition of a subsidiary	2,404	—	2,404
Non-controlling interests arising on the acquisition of subsidiaries *(see Note 38(a))*	2,292	—	2,292
At 31 December 2014	205,641	(1,990)	203,651

38. ACQUISITION OF SUBSIDIARIES

(a) During the year ended 31 December 2014, three acquisitions have been made and details are as follows:

A wholly owned subsidiary of the Company acquired 95% equity interest in 安徽鑫港環保科技有限公司 (Anhui Xin'gang Environmental Technology Company Limited) ("Anhui Xin'gang"), from independent third parties, for cash consideration of RMB27,740,000 (approximately HK$34,675,000 on 13 May 2014). Anhui Xin'gang is principally engaged in the recycling and dismantling of waste electrical and electronic equipment.

A wholly owned subsidiary of the Company acquired 97.85% equity interest in Huizhou Guanghui from Richways Investment Management Limited and Huizhou Energy(s) Pte. Ltd., independent third parties, for cash consideration of RMB20,000,000 (approximately HK$25,000,000) and the Group has agreed to acquire the liabilities of Huizhou Guanghui amounted to approximately RMB378,000,000 (approximately HK$472,500,000 on 1 July 2014).

A wholly owned subsidiary of the Company acquired 100% equity interest in 葫蘆島康達錦程環境治理有限公司 (Huludao Kangte Jincheng Environmental Management Company Limited ("Huludao Kangte"), from independent third parties, for cash consideration of RMB3,650,000 (approximately HK$4,618,000 on 26 September 2014).

The acquisitions have been accounted for using purchase method. No goodwill arose from the acquisitions of Anhui Xin'gang, Huizhou Guanghui and Huludao Kangte.

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

	Anhui Xin'gang	Huizhou Guanghui	Huludao Kangte	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Property, plant and equipment	15,125	287	180	15,592
Inventories	—	794	—	794
Trade receivables	—	15,407	—	15,407
Intangible asset	28,500	328,022	—	356,522
Amounts due from grantors for contract work	—	162,065	50,952	213,017
Deposits, prepayment and other receivables	—	1,262	45	1,307
Bank balances and cash	—	718	5	723
Trade payables	—	(89,003)	—	(89,003)
Other payables and accruals	—	(31,120)	(46,564)	(77,684)
Amount due to related parties of vendor	—	(127,659)	—	(127,659)
Amounts due to group companies	—	(50,320)	—	(50,320)
Borrowings	—	(188,750)	—	(188,750)
Deferred tax liabilities	(7,125)	—	—	(7,125)
	36,500	21,703	4,618	62,821

Non-controlling interest

The non-controlling interests of 5% of Anhui Xin'gang and 2.15% of Huizhou Guanghui recognised at the acquisition date were measured by reference to the non-controlling interests' proportionate share of Anhui Xin'gang and Huizhou Guanghui identifiable net assets and amounted to HK$1,825,000 and HK$467,000.

	Anhui Xin'gang	Huizhou Guanghui	Huludao Kangte	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Net cash outflow on acquisition:				
Cash consideration paid	(34,675)	(25,000)	(4,618)	(64,293)
Bank balances and cash	—	718	5	723
	(34,675)	(24,282)	(4,613)	(63,570)

The group loss for the period were contributed by (i) Anhui Xin'gang's loss of approximately HK$656,000; (ii) Huizhou Guanghui's profit of approximately HK$ 6,158,000 and (iii) Huludao Kangte's profit of approximately HK$36,000 between the dates of acquisition and 31 December 2014.

If the acquisitions had been completed on 1 January 2014, total group loss for the year ended 31 December 2014 would have been HK$52,038,000. The proforma information is for illustrative purposes only and is not necessarily an indication of the results of the operations of the Group that actually would have been achieved hand the acquisition been completed on 1 January 2014, nor is it intended to be a projection of future results.

(b) A wholly owned subsidiary of the Company acquired 60% equity interest in Xinxiang Capital Solid and 55% equity interest in 江蘇蘇北廢舊汽車家電拆解再生利用有限公司 (Jiangsu Subei Waste Vehicles and Household Appliances Dismantling Recycling Ltd.*) ("Jiangsu Subei"), from independent third parties, for cash consideration of approximately HK$7,692,000 on 30 August 2013 and HK$152,308,000 on 30 December 2013, respectively. The acquisitions have been accounted for using purchase method. The amount of goodwill as a result of acquisition of Jiangsu Subei was HK$13,810,000 and no goodwill arose from the acquisition of Xinxiang Capital Solid.

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

	HK$'000	*HK$'000*	*HK$'000*
Property, plant and equipment	—	48,525	48,525
Amounts due from grantors for contract works	13,803	—	13,803
Intangible asset	—	20,513	20,513
Prepaid lease payment	—	61,449	61,449
Inventories	—	23,946	23,946
Trade receivables	—	152,128	152,128
Deposits, prepayments and other receivables	23	9,141	9,164
Bank balances and cash	74	144,010	144,084
Trade payables	—	(6,587)	(6,587)
Other payables and accruals	(1,079)	(7,026)	(8,105)
Tax payable	—	(31,464)	(31,464)
Borrowings	—	(157,692)	(157,692)
Deferred tax liabilities	—	(5,128)	(5,128)
	12,821	251,815	264,636

Goodwill arising on acquisition

	Jiangsu Subei *HK$'000*
Consideration transferred	152,308
Non-controlling interest (45% in Jiangsu Subei)	113,317
Net assets acquired	(251,815)
	13,810

Goodwill arose in the acquisition of Jiangsu Subei because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth and future market development of Jiangsu Subei. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

Non-controlling interest

The non-controlling interests of 40% of Xinxiang Capital Solid and 45% of Jiangsu Subei recognised at the acquisition date were measured by reference to the non-controlling interests' proportionate share of Xinxiang Capital Solid and Jiangsu Subei identifiable net assets and amounted to HK$5,129,000 and HK$113,317,000 respectively.

	Xinxiang Capital Solid	Jiangsu Subei	Total
	HK$'000	*HK$'000*	*HK$'000*
Net cash outflow on acquisition:			
Cash consideration paid	(7,692)	(152,308)	(160,000)
Bank balances and cash acquired	74	144,010	144,084
	(7,618)	(8,298)	(15,916)

If the acquisitions had been completed on 1 January 2013, total group revenue for the year would have been HK$473,810,000, and profit for the year ended 31 December 2013 would have been HK$5,236,000. 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 2013, nor is it intended to be a projection of future results.

On 1 June 2013, the Group entered into a disposal agreement to dispose of its wholly-owned subsidiary, Full Prosper, which was a dormant company, to an independent third party, for a cash consideration of approximately HK$8. The transaction was completed on 25 June 2013.

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

	HK$'000
Net assets disposed of:	
Bank balances and cash	61
Other payables	(61)
	—
Satisfied by:	
Cash	—
Net cash outflow arising on disposal:	
Cash consideration	—
Bank balances and cash disposed of	(61)
	(61)

The subsidiary disposed of during the period contributed no revenue and losses to the Group.

39. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2014, construction revenue of approximately HK$585,400,000 (2013: HK$202,807,000) was recognised in return for amounts due from grantors for contract work.

SZ Yueneng has declared dividend amounted to RMB7,272,000 (approximately HK$9,124,000) to the Company during the year ended 31 December 2014 and the dividend was recognised in the amount due from an associate as at 31 December 2014.

40. OPERATING LEASE COMMITMENT

The Group as lessee

	2014	2013
	HK$'000	*HK$'000*
The Group made rental payment for properties under operating lease as follows:		
Minimum lease payments	6,738	4,784

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:

	2014	2013
	HK$'000	*HK$'000*
Within one year	8,189	2,422
In the second to fifth years	8,155	11
	16,344	2,433

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.

41. CAPITAL COMMITMENT

	2014	2013
	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	182,515	400,879

42. OTHER COMMITMENT

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 RMB97,870,000 (approximately HK$122,338,000) 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 2014. The capital of the project company has yet to be registered at 31 December 2014.

At 31 December 2013, the Group is bounded by agreement to acquire the remaining equity interest at Duyun Kelin and Weng'an Kelin from Haohua Environmental with preliminary consideration of approximately HK$3,399,000 (2013: HK$3,490,000) and HK$5,246,000 (2013: HK$5,400,000) respectively. The date of transfer has not yet been finalised.

43. CONTINGENT LIABILITIES

At 31 December 2014, the Group provided guarantees of RMB9,513,000 (approximately HK$11,891,000) (2013: RMB12,052,000 (approximately HK$15,451,000)) 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.

44. 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 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 profit or loss and other 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.

The total expense recognised in profit or loss of HK$5,845,000 (2013: HK$3,643,000) represents contributions payable to these plans by the Group at rates specified in the rules of the plans.

45. 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 2014, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 2,703,288 (2013: 2,703,288), representing 0.06% (2013: 0.06%) 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	408,609	Nil	18.8.2008 to 17.8.2018	HK$1.57	HK$1.3833
	540,000	612,915	18.8.2008 to 17.8.2009	18.8.2009 to 17.8.2018	HK$1.57	HK$1.3833
	900,000	1,021,523	18.8.2008 to 17.8.2010	18.8.2010 to 17.8.2018	HK$1.57	HK$1.3833
6.9.2010	14,300,000	16,107,019	Nil	6.9.2010 to 5.9.2015	HK$0.501	HK$0.4448

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 3 July 2013.

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 1.1.2014**	**Adjusted during the year**	**Granted during the year**	**Exercised during the year**	**Lapsed during the year** *(Note)*	**Outstanding at 31.12.2014**
6.9.2010	2,703,288	—	—	—	—	2,703,288
	2,703,288	—	—	—	—	2,703,288
Exercisable at the end of the year	2,703,288					2,703,288
Weighted average exercise price	HK$0.44	N/A	N/A	N/A	N/A	HK$0.44

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 1.1.2013	Adjusted during the year	Granted during the year	Exercised during the year	Lapsed during the year *(Note)*	Outstanding at 31.12.2013
18.8.2008	201,532	25,468	—	—	(227,000)	—
6.9.2010	3,900,000	492,843	—	—	(1,689,555)	2,703,288
	4,101,532	518,311	—	—	(1,916,555)	2,703,288
Exercisable at the end of the year	4,101,532					2,703,288
Weighted average exercise price	HK$0.55	N/A	N/A	N/A	HK$0.56	HK$0.44

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 2014 and 2013 in relation to share options granted by the Company.

46. RELATED PARTY TRANSACTIONS

During the year, in addition to the balances and transactions disclosed in Notes 28, 31, 32 and 33, 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):

Name of the related parties	Nature of the transactions	2014	2013
		HK$'000	*HK$'000*
Entity with significant influence over the Group:			
Beijing Capital (HK)	Interest expenses *(Note)*	26,340	4,302
	Rental expenses *(Note)*	1,300	960

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

Details of the outstanding balances with Beijing Capital (HK) are set out in Note 31.

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

During the year ended 31 December 2014 and 2013, the Group recognised revenue from the services under service concession agreement approximately to HK$618,014,000 and HK$255,558,000 under service concession arrangements with the local governments in PRC as disclosed in Note 21.

As at 31 December 2014 and 2013, the deposits paid for construction of infrastructure in service concession arrangements with the government related entity, Urban Construction Institute, are disclosed in Note 24.

As at 31 December 2014, trade receivable from government subsidies in relation to the licenses and franchises for the treatment of certain waste electric and electronic products (Note 18) are approximately HK$208,038,000 (2013: HK$152,128,000).

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	2014	2013
		HK$'000	*HK$'000*
Associate:			
SZ Yueneng	Interest income *(Note)*	1,264	1,124
	Dividend	9,124	—

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

Details of the outstanding balances with SZ Yueneng is set out in Note 28.

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

	2014	2013
	HK$'000	*HK$'000*
Short-term benefits	9,464	7,828
Post-employment benefits	—	—
	9,464	7,828

47. PRINCIPAL SUBSIDIARIES

Details of the Group's principal subsidiaries at 31 December 2014 and 2013 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 2014	2013	Principal activities
Biomax Environmental Technology Limited	Hong Kong	Ordinary shares HK$100	100%	100%	Investment holding
Biomax Environmental Technology Germany GmbH *(Note a)*	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 GE *(Note a)*	PRC	Registered capital RMB209,000,000 (2013: RMB185,760,000)	100%	100%	Production and operating of factories for municipal solid waste treatment
Yangzhou Capital Investment Limited 揚州首拓投資有限公司* (Formerly known as Yangzhou Capital Solid Investment Limited* 揚州首拓投資有限公司) *(Note a)*	PRC	Registered capital US$55,000,000 (2013: US$40,000,000)	100%	100%	Provision of technical services
Beijing Capital Environment Investment Limited* 北京首創環境投資有限公司 (Formerly known as Beijing Capital Solid Environmental Energy Investment Limited* 北京首拓環能投資有限公司) *(Note a)*	PRC	Registered capital RMB300,000,000	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 a)*	PRC	Registered capital US$5,400,000	100%	100%	Provision of consulting services

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 2014	2013	Principal activities
BJ Yiqing Biomax *(Note a)*	PRC	Registered capital RMB93,689,400 (2013: 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 a)*	PRC	Registered capital US$400,000	100%	100%	Provision of consulting services
Duyun Kelin *(Note a)*	PRC	Registered capital RMB40,000,000	91.75%	91.75%	Municipal solid waste treatment
Weng'an Kelin *(Note a)*	PRC	Registered capital RMB21,000,000	80%	80%	Municipal solid waste treatment
Jiangsu Subei *(Note b)*	PRC	Registered capital RMB216,000,000	55%	55%	Recycle and disassemble waste electrical and electronic equipment
Xinxiang Capital Solid *(Note b)*	PRC	Registered capital RMB20,000,000 (2013: RMB10,000,000)	60%	60%	Production and operating of factories for municipal solid waste treatment
Anhui Xin'gang *(Note c)*	PRC	Registered capital RMB80,000,000	95%	—	Recycle and disassemble waste electrical and electronic equipment
Huizhou Guanghui *(Note c)*	PRC	Registered capital RMB245,600,000	97.85%	—	Waste treatment and waste-to-energy generation project
Huludao Kangte *(Note c)*	PRC	Registered capital RMB40,000,000	100%	—	Municipal solid waste treatment

* *For identification purpose only*

Notes:

(a) These companies are wholly owned foreign enterprises.

(b) The companies were acquired by the Group during the year ended 31 December 2013.

(c) The companies were acquired by the Group during the year ended 31 December 2014.

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.

The table below shows details of non-wholly-owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiaries	Place of incorporation and operations	Proportion of equity interest and voting rights held by non-controlling interests	Profit allocated to non-controlling interests		Accumulated non-controlling interests	
			2014	2013	2014	2013
			HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
BJ Yiqing Biomax	PRC	40%	782	78,682	65,890	66,344
Jiangsu Subei	PRC	45%	1,982	—	112,458	113,317
Individually immaterial subsidiaries with non-controlling interest			2,973	3,126	25,303	18,095
			5,737	81,808	203,651	197,756

Summarised financial information in respect of the Group's subsidiary that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

BJ Yiqing Biomax

	2014	2013
	HK$'000	*HK$'000*
Current assets	25,137	36,450
Non-current assets	286,835	251,441
Current liabilities	(88,041)	(110,444)
Non-current liabilities	(101,729)	(11,587)
Equity attributable to owners of the Company	73,321	99,516
Non-controlling interests	48,881	66,344

	2014	2013
	HK$'000	*HK$'000*
Revenue	92,968	10,353
Expenses *(Note)*	(91,014)	186,352
Profit for the year	1,954	196,705
Profit attributable to owners of the Company	1,172	118,023
Profit attributable to the non-controlling interests	782	78,682
Profit for the year	1,954	196,705
Other comprehensive income attributable to owners of the Company	1,112	86
Other comprehensive income attributable to the non-controlling interests	742	57
Other comprehensive income for the year	1,854	143
Total comprehensive income attributable to owners of the Company	2,285	118,109
Total comprehensive income attributable to the non-controlling interests	1,523	78,739
Total comprehensive income for the year	3,808	196,848
Net cash (outflows) inflows from operating activities	(112,553)	38,799
Net cash inflow from financing activities	92,724	16,467
Net cash inflows (outflows) from investing activities	5,999	(25,582)
Net cash (outflows) inflows	(13,830)	29,684

Note: Included in expenses for the year ended 31 December 2013, approximately HK$83,333,000 and HK$103,409,000 were the reversal of provision for expected loss and the reversed of provision for penalty charges respectively as detailed in Note 21.

Jiangsu Subei

	2014	2013
	HK$'000	*HK$'000*
Current assets	221,710	330,442
Non-current assets	112,477	129,270
Current liabilities	(94,310)	(202,769)
Non-current liabilities	(48,226)	(5,128)
Equity attributable to owners of the Company	105,408	138,498
Non-controlling interests	86,243	113,317

	2014
	HK$'000
Revenue	287,841
Expenses *(Note)*	(283,437)
Profit (loss) for the year	4,404
Profit attributable to owners of the Company	2,422
Profit attributable to the non-controlling interests	1,982
Profit for the year	4,404
Other comprehensive income attributable to owners of the Company	441
Other comprehensive income attributable to the non-controlling interests	360
Other comprehensive income for the year	801
Total comprehensive income attributable to owners of the Company	2,863
Total comprehensive income attributable to the non-controlling interests	2,342
Total comprehensive income for the year	5,205
Net cash inflows from operating activities	9,150
Net cash outflows from financing activities	(129,454)
Net cash outflows from investing activities	(10,730)
Net cash outflows	(131,034)

Note: The Company acquired Jiangsu Subei on 30 December 2013 therefore only financial information for the year ended 31 December 2014 is presented.

48. EVENT AFTER THE REPORTING PERIOD

Subsequent to the reporting period, Beijing Capital (HK), has granted the Group a three-year term facility of RMB1,300,000,000 (approximately HK$1,625,000,000) in March 2015.

On 16 March, 2015, the Company announced its plan to dispose 40% shareholdings of BJ Yiqing Biomax. The proposed disposal will be made by way of public tender auction listing procedures conducted in strict compliance with relevant PRC laws and regulations in relation to transfer of state-owned assets and is subject to approvals from Beijing State-owned Assets Supervision and Administration Commission of People's Government of Beijing Municipality and other competent authorities. The reserve price for the disposal will be determined with reference to the appraised net assets value of BJ Yiqing Biomax by valuation. BJ Yiqing Biomax is primarily engaged in the municipal solid waste recycling treatment through the operation of its Beijing Dongcun Sorting Comprehensive Treatment Plant.

49. SUMMARY FINANCIAL INFORMATION OF THE COMPANY

	NOTES	2014 HK$'000	2013 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		126	140
Amounts due from subsidiaries		825,624	318,769
Investments in subsidiaries		209,576	209,576
		1,035,326	528,485
CURRENT ASSETS			
Deposit, prepayment and other receivables		398	289
Bank balances and cash		103,208	46,087
		103,606	46,376
CURRENT LIABILITIES			
Other payables and accruals		23,629	6,684
Borrowings		804,000	52,250
Warrants		79	—
Convertible bonds	33	63,674	85,170
Embedded derivatives	33	—	149,112
		891,382	293,216
NET CURRENT LIABILITIES		(787,776)	(246,840)
TOTAL ASSETS LESS CURRENT LIABILITIES		247,550	281,645
NON-CURRENT LIABILITIES			
Borrowings		—	160,000
		—	160,000
NET ASSETS		247,550	121,645
CAPITAL AND RESERVES			
Share capital	36	473,150	465,564
Reserves			
Share premium		2,004,949	1,966,372
Share options reserve		98	98
Accumulated losses		(2,230,647)	(2,310,389)
TOTAL EQUITY		247,550	121,645

FINANCIAL SUMMARY

	For the year ended 31 December				
	2010	**2011**	**2012**	**2013**	**2014**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
RESULTS					
Revenue (continuing and discontinued operation)	713,729	49,001	17,609	282,441	963,608
Loss attributable to owners of the Company	(742,303)	(325,504)	(147,054)	(124,370)	(68,266)
ASSETS AND LIABILITIES					
Total assets	839,599	681,121	1,057,327	2,112,924	2,992,120
Total liabilities	(768,120)	(618,391)	(1,006,110)	(1,433,420)	(2,299,580)
	71,479	62,730	51,217	679,504	692,540
Equity attributable to owners of the Company	68,147	81,438	60,748	481,748	488,889
Non-controlling interests	3,332	(18,708)	(9,531)	197,756	203,651
	71,479	62,730	51,217	679,504	692,540

C. STATEMENT OF INDEBTEDNESS

As at 31 March 2015, being the latest practicable date for the purpose of ascertaining the indebtedness of the Group prior to the printing of this Circular, the details of the Group's outstanding borrowings, convertible bonds and contingent liabilities in respect of guarantees were set out as follows:

	HK$'000
Bank borrowings — secured and unguaranteed	713,143
Bank borrowings — unsecured and guaranteed	435,900
Other borrowings — secured and unguaranteed	491,250
Other borrowings — unsecured and unguaranteed	64,500
Convertible bonds (principal amount) — unsecured and unguaranteed	78,000

All the unsecured bank borrowings are guaranteed by corporate guarantee.

As at 31 March 2015, the Group's bank borrowings of (i) approximately HK$101,456,000 was secured by the service concession contract that gives right to the Group to operate the waste treatment project in Beijing; (ii) approximately HK$68,750,000 was secured by certain land use right; (iii) approximately HK$372,000,000 was secured by pledged deposit held in the bank and (iv) approximately HK$170,937,000 was secured by the income deriving from the service concession contract that gives right to the Group to operate the waste treatment project in Huizhou.

As at 31 March 2015, the Group's other borrowings of approximately HK$491,250,000 were secured by the equity interest of its subsidiaries and an associate.

In addition, as at 31 March 2015, the Group has outstanding authorised but undrawn unsecured and unguaranteed other borrowings facility of RMB1,300,000,000 (approximately HK$1,625,000,000).

As at 31 March 2015, contingent liabilities in respect of guarantees provided to a bank in respect of banking facilities granted to an associate of approximately HK$11,098,000.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities and normal accounts payable in the ordinary course of business, as of 31 March 2015, 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 2014, 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

Business Review

In 2014, Europe and the U.S. experienced moderate economic recovery while emerging economies faced a slowdown in economic growth. As an important engine of the global economy, PRC has been actively transforming its economic structures while continuing to maintain stable economic growth, the development of green economy and environmental protection industry has become the cornerstone for PRC's future economic reforms and long-term development.

Since the State "12th Five-Year Plan" has identified the energy conservation and environmental protection industry as top priority among the seven strategic emerging industries, relevant government authorities in PRC successively issued a series of guidelines and policies for environmental governance in 2013, including the Action Plan on Prevention and Control of Air Pollution 2013-2017 and Ten Measures to Prevent and Control Air Pollution. The development blueprint for Building a Beautiful China laid out during the 18th National Congress of the Chinese Communist Party, in particular, has placed an unprecedentedly significant emphasis on the environmental protection industry. We believe that the PRC government will further step up its policy support and capital investments in environmental governance. In addition, the demand for environmental protection and alternative energy will continue to increase across the country, providing the Group with enormous market opportunities and development potentials.

During the year under review, projects of the Group continued to progress steadily. Benefiting from favorable national policies and growing market demand, the Group has made remarkable achievements in operating results, market expansion, internal management, fund raising and financing, and the extension of its business chain. Leveraging on its leading technology in environmental protection and alternative energy as well as highly effective management, the Group stood out from the keen competition by continuously tapping into new markets, hence laying a solid foundation for maintaining and reinforcing its leading position in the industry.

In 2014, the Group successfully acquired 7 environmental protection projects with a total investment of approximately RMB1,800 million, and continued to reinforce its leading position in the industry. Meanwhile, the Group also enhanced its co-operation with governments at all levels by entering into strategic co-operation agreements with provincial and municipal governments in Heilongjiang, Shanxi, Jiangsu, fostering investments in numerous new projects in new regions.

Riding on its valuable experiences, the Group will make thorough preparation for various projects at initial stage while commencing the construction of various new projects to boost revenue growth. With the completion and operation of projects acquired in previous years and the smooth progress of projects under construction, potential growth of the Group's profit can be expected.

Business Prospects

The Group actively explored business opportunities in all areas of the environmental protection and alternative energy industry to keep up with the rapid development. As of 31 December 2014, the Group secured a total of 18 environmental protection and alternative energy projects (including 6 waste-to-energy projects, 3 waste landfill projects, 3 Anaerobic Digestion Technology Treatment projects, 1 waste collection, storage and transportation project, 2 dismantling waste electronic appliances projects and 3 biomass resources electricity generation projects) with a total investment of approximately RMB5,100 million. Projects which had completed construction involved a total investment of approximately RMB1,700 million, while those which are under construction and at preparatory stage involved a total investment of approximately RMB3,400 million, respectively. The facilities are designed with an aggregate annual household waste processing capacity of approximately 4.6 million tonnes and annual electrical and electronic equipment dismantling volume of approximately 3.2 million units.

The Group, constantly learning from its experience, is always well prepared and well aware of the market pulse to concentrate its resources on developing the environmental energy sector. In 2014, the Group secured a total of 7 waste-to-energy projects, and an annual electrical and electronic equipment dismantling capacity of approximately 1.2 million units. The new projects add a total designed daily household waste processing capacity of 4,120 tonnes.

The Beijing Dongcun Sorting Comprehensive Treatment Plant of the Group is currently put into the debugging stage and is expected to be put into commercial trial operation at the end of July 2015. On 16 March 2015, the Group proposed to dispose of the 40% equity interest in Beijing Dongcun Project Company ("Proposed Disposal"). The Proposed Disposal will be made by way of public tender auction listing procedures conducted in strict compliance with relevant PRC laws and regulations in relation to transfer of state-owned assets and is subject to approvals from State-owned Assets Supervision and Administration Commission of People's Government of Beijing Municipality and other competent authorities. The reserve price for the 40% equity interest in Beijing Dongcun Project Company will be determined with reference to (among others) the valuation report on Beijing Dougcun Project Company to be prepared by an independent and qualified PRC valuer.

On 16 January 2015, the household waste incineration power plant project in Quanling, Nanchang (the "Nanchang Project"), which is wholly-owned by the Company, has successfully held the igniting ceremony and officially entered into the "72+24" experimental stage, which marked the commencement of operation of the first household waste incineration power generation project in Jiangxi Province, PRC.

The Nanchang Project is one of the representative projects that mark the high starting point of the Company, and helps to build up our first whole-chain treatment system, which integrates the waste receiving and storage system, waste incineration system, residual heat power generation boiler system, flue gas purification system, leachate treatment system, ash residue removal system and so on. The plant is designed to generate a maximum amount of energy, while reducing waste to the greatest degree. The heavily polluted water produced by the garbage power plant will be fully reprocessed, so that pollutants such as dioxins and heavy metals can be efficiently removed to realize the target of harmless emission. In addition, the resulting waste residual can be reused to produce products such as ceramic tiles. The Nanchang Project has been approved as an environmental demonstration base by the National Development and Reform Commission.

The Nanchang Project, which is principally equipped with two mechanical reciprocating grate boilers with a daily capacity of 600 tonnes and two 12MW steam turbine generator sets, is able to dispose of one-third of urban solid waste in Nanchang City in a hazard-free way by using leading domestic and international mature process technologies. The Nanchang Project is able to dispose of solid waste of approximately 1,200 tonnes per day and approximately 400,000 tonnes per year.

The change of industrial and commercial registration of Huizhou Project in Guangdong has been duly completed on 1 July 2014, and site selection for the New Waste Treatment Plant has been proceeded to the stage of public notice period; Huizhou project has been moved ahead significantly. According to the plan, it is expected to treat 1,600 tonnes of waste daily upon construction completion of the New Waste Treatment Plant.

The kitchen waste treatment project located in Yangzhou, Jiangsu was tendered by the Company on 6 November 2013. The project company has been incorporated and is currently carrying out preparation works for the project, which is anticipated to complete construction and commence normal commercial operation in the second half of 2015.

The solid waste landfill project in Huludao, Liaoning province was acquired by the Company in September 2014, with investment totaling RMB93.38 million. The waste treatment capacity is 424 tons per day, and the minimum guaranteed treatment capacity is 380 tons per day. The project is under construction currently, and it is expected that site construction will be completed in second half of 2015 and then operation will commence.

The project of village wastes collection, storage and transportation in Linyi County is the first project of the Company to collect and transport wastes. The unit price charged for providing collection and transportation service is RMB160 per ton, and the minimum guaranteed volume for wastes collection and transportation is 260 tons per day. With a total investment of RMB17 million, the project is expected to be put into operation in April 2015.

The projects located in Pinghu, Shenzhen, Huaian, Jiangsu and Duyun and Weng'an, Guizhou are all in normal commercial operation.

Looking ahead, with stronger supporting policies from the PRC government and the continued comprehensive support from the substantial shareholders, 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.

The Group will further consolidate and improve its existing businesses and technologies, constantly seeking projects with growth potential and good opportunities for acquisitions and mergers, thereby making continuous contribution to the construction of beautiful China and global environmental protection. The Group is on target for getting three to four waste-to-energy projects per year in the future years. As at 31 December 2014, the Group is actively proposing and negotiating investments in four to five waste treatment projects by way of tender or acquisition. The Group will consider several sources of funding to finance the future investments, including equity financing, debt financing, bank loans and/or shareholders' loans.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group (the "Unaudited Pro Forma Financial Information") has been prepared by the Directors in accordance with Paragraph 4.29 of the Listing Rule to illustrate the effect of the proposed Rights Issue on the basis of one Rights Share for every existing Shares held on the Record Date at HK$0.45 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 2014.

The Unaudited Pro Forma Financial Information is prepared for illustrative purposes only, and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group attributable to owners of the Company immediately had the Right Issue been completed as at 31 December 2014 or at any future date after completion of the Rights Issue.

The Unaudited Pro Forma Financial Information is prepared based on the consolidated net tangible assets of the Group attributable to owners of the Company derived from the consolidated statement of financial position of the Group as at 31 December 2014 as extracted from the annual report of the Company for the year ended 31 December 2014, after incorporating the adjustments described in the accompanying notes.

Audited consolidated net tangible assets of the Group attributable to the owners of the Company as at 31 December 2014	**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)*	
126,375	2,114,346	2,240,721

	HK cents
Audited consolidated net tangible assets of the Group attributable to the owners of the Company per Share as at 31 December 2014 before the completion of the Rights Issue *(Note 3)*	2.67
Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company per Share as at 31 December 2014 immediately after the completion of the Rights Issue *(Note 4)*	23.68

Notes:

1. The audited consolidated net tangible assets attributable to the owners of the Company as at 31 December 2014 of approximately HK$126,375,000 represents the net assets attributable to owners of the Company of approximately HK$488,889,000, as extracted from the audited consolidated statement of financial position of the Group as at 31 December 2014 set out in Appendix I to this Circular, deducting intangible assets attributable to the owners of the Company of approximately HK$348,704,000 and goodwill of the Company of approximately HK$13,810,000, respectively.

2. The estimated net proceeds from the Rights Issue of approximately HK$2,114,346,000 are based on 4,731,504,664 Rights Share to be issued (based on Shares in issue as at 31 December 2014 and assuming no Share Options would be exercised and no Convertible Bonds or Warrants would be converted during the period from 1 January 2015 to the Latest Practicable Date) at the Subscription Price of HK$0.45 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$14,831,000.

3. The audited consolidated net tangible assets of the Group attributable to the owners of the Company per Share as at 31 December 2014 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 2014 of approximately HK$126,375,000 as disclosed in note (1) above, divided by 4,731,504,664 Shares which represents Company's Shares in issue as at 31 December 2014.

4. Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company per Share as at 31 December 2014 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$2,240,721,000, divided by approximately 9,463,009,330 Shares which represents 4,731,504,664 Shares in issue as at 31 December 2014 and 4,731,504,664 Rights Shares to be issued pursuant to the Rights Issue (based on Shares in issue as at 31 December 2014 and assuming no Share Options would be exercised and no Convertible Bonds or Warrants would be converted during the period from 1 January 2015 to the Latest Practicable Date).

5. No adjustment has been made to reflect any trading results or other transactions of the Group subsequent to 31 December 2014.

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 CAPITAL ENVIRONMENT HOLDINGS LIMITED

We have completed our assurance engagement to report on the compilation of pro forma financial information of Capital Environment Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The pro forma financial information consists of the pro forma statement of adjusted consolidated net tangible assets of the Group as at 31 December 2014 and related notes as set out in section A of Appendix II to the circular issued by the Company dated 11 May 2015 (the "Circular") in connection with the proposed Rights Issue (as defined in the Circular). The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in section A of Appendix II to the Circular.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed Rights Issue on the Group's financial position as at 31 December 2014 as if the Rights Issue had taken place at 31 December 2014. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's consolidated financial statements for the year ended 31 December 2014, on which an audited report has been published.

Directors' Responsibilities for the Pro Forma Financial Information

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

Reporting Accountant's Responsibilities

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

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

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

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 December 2014 would have been as presented.

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

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

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

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

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

Opinion

In our opinion:

(a) the pro forma financial information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

11 May 2015

1. 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 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, Beijing Capital (HK) and BC Water 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.

2. SHARE CAPITAL

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 *HK$'*
Authorised:		
6,000,000,000	As at the Latest Practicable Date	600,000,000
Issued and fully paid:		
4,731,504,664	As at the Latest Practicable Date	473,150,466.40
5,003,173,469	Maximum number of Rights Shares to be issued pursuant to the Rights Issue	500,317,346.90
10,006,346,938	Immediately after completion of the Rights Issue assuming issue of the above maximum number of Rights Shares	1,000,634,693.80

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 2014. 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 2014, to the Latest Practicable Date.

Share Options

Details of specific categories of Share Options are as follows:

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 2014.

Convertible securities, options, warrants or similar rights

As at the Latest Practicable Date, save for:

(i) the Convertible Bond; and

(ii) the Share Options,

the Company did not have other options, warrants and other convertible securities or rights affecting the Shares.

3. DIRECTORS

Executive Directors

Mr. Yu Changjian, aged 59, 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 Guoxian, aged 51, 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. Since 25 June 2014, he has been appointed as a non-executive director of China Environmental Technology Holdings Limited which is a company listed on The Stock Exchange.

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 60, was appointed as an executive director of the Company 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 the Secretary of Party Committee of Beijing Capital Group Co., Ltd., the chairman of the board of directors of Beijing Capital Co., Ltd., 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, an executive director of China Development Bank International Investment Limited since 14 April 2004 and a non-executive director of Juda International Holdings Limited. These companies are listed on the Stock Exchange.

Mr. Shen Jianping, aged 58, holder of a Master Degree. Mr. Shen was the general manager officer of Beijing Capital Group Co., Ltd.. Currently, he is serving as a director of Beijing Capital Group Co., Ltd., a non-executive director of Beijing Capital Land Ltd. which is a company listed on The Stock Exchange of Hong Kong Limited and the vice chairman of China Digital Culture Group Co., Ltd.. Prior to his appointment with Beijing Capital Group Co., Ltd.. Mr. Shen taught at Peking University, and successively served as lecturer, ex-officio, secretary, officer of the Political Department of Foreign Students School and political commissar of doctoral student force for PLA National Defense University, during the same period, Mr. Shen also served as the peacekeeping military observer of United Nations Advance Mission in Cambodia, and the deputy national defense military officer of Chinese Embassy in Iraq.

Independent non-executive Directors

Mr. Pao Ping Wing, *JP*, aged 67, 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, Maoye International Holdings Limited, HL Technology Group Limited and JC Group Holdings Limited, all of which are listed on the Stock Exchange.

Mr. Cheng Kai Tai, Allen, aged 51, 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 20 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 China and is a professional advisor to several international companies of investment management, textile, retailing, metal trading and manufacturing in China and Japan.

Dr. Chan Yee Wah, Eva, age 50, 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.

4. SENIOR MANAGEMENT

Mr. Gu Jinshan, a Doctor degree holder, senior engineer, was appointed as the deputy general manager of the company in February 2015. He is responsible for leading of investments department I and corporate management.

Mr. Gu obtained a doctor degree in Radio Waves Engineering from Southeast University, a Master degree in Engineering from College of Optoelectronic Science Engineering of Nanjing University of Science and Technology and a Bachelor degree in Electronic Engineering from Changchun University of Science and Technology (formerly known as Changchun Institute of Optics and Fine Mechanics). Mr Gu was the laser engineer of Nanjing University Institute of Communication Technology of Ningbo Bird Co., Ltd., the operation director the committee member of Party Committee of the Technology & Network Construction Department of China United Network Communications Limited, the committee member of Party Committee and Deputy General Manager of China United Network Communications Limited Tangshan Branch, the Party Committee member of People's Government and assistant to mayor of Meishan city of Sichuan.

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 Beijing Capital (HK).

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 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 financial controller of the Company in June 2011 and then as the chief financial officer of the Company in February 2013. 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.

Mr Yan shengli was appointed as the assistant president of the Company in June 2011 and then as the vice president in January 2013. Mr Yan is responsible for leading of operation center and legal affairs of the Company.

Mr Yan obtained a Master Degree of Economic Legal Studies from Huazhong University of Science & Technology and a Bachelor degree in Mathematics from Henan Normal University, is a practicing lawyer of People's Republic of China, an economist and an arbitrator. He has well engaged in PRC law and its expertise knowledge of economic aspect, legal application and practicing compliance. He has practiced as practicing lawyer for more than 20 years' experience and as arbitrator for ten years' experience. He was previously the Legal Consul of several sizable enterprises and government authorities in PRC. He has been familiar with the operation practice, regulations and management style of Government and enterprises; the Secretary of Judiciary Department in Factory 9623 of China North Industries Group Corporation; a senior partner of Henan Ziwu Solicitors & Co., a general manager of Henan Hongda Properties Company; and a partner of Beijing Rongshi Solicitors & Co. and Beijing Chang'an Solicitors & Co..

Mr. Hu Zaichun was appointed as the assistant president of the Company in September 2011 and then as the vice president of the Company in January 2013, responsible for investments department II.

Mr. Hu is a postgraduate from University of Chinese Academy of Sciences and Research Center for Eco-Environmental Sciences, Chinese Academy of Sciences, and holds a bachelor degree of geochemistry from the University of Science and Technology of China. He was a visiting scholar of National Center for Atmospheric Research, USA. Mr. Hu served as Assistant Engineer and Engineer in the Investment Division of the Planning Bureau of Chinese Academy of Sciences (Financial Planning Bureau), Secretary of the

Office of Chinese Academy of Sciences, Secretary to the Special Inspector of the State Council (Chairman of State-owned Enterprises Supervisor Committee) of the General Administration of Special Inspector of the State Council (Work Office of State-owned Enterprises Supervisor Committee), General Manager of the Property Management Department, Secretary to the First Supervisor Committee, Supervisor of the Second Supervisor Committee in Chinese Academy of Sciences Holdings Co., Ltd.. He took part in the preparation of 光電集團 and Chinese Academy of Sciences Holdings Co., Ltd., and served as Chairman of the Second Session of Board of Directors in Architecture Design and Research of C. A. S, director of the First Session of Board of Directors in CAS Publication Group Co., Ltd, Assistant to the General Manager, Secretary of the Second Session of the Board of Directors and Director of Office of the Party Committee in CAS Publication Group Co., Ltd (Science Press Ltd.).

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.

5. CORPORATE INFORMATION, PARTIES INVOLVED IN THE RIGHTS ISSUE

Registered office	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Head office and principal place of business in Hong Kong and office address of all Directors	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 Changjian 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	Royal Bank of Canada Trust Company (Cayman) Limited 4th Floor, Royal Bank House 24 Shedden Road George Town Grand Cayman KY1–1110 Cayman Islands
Branch share registrar in Hong Kong	Tricor Investor Services Limited Level 22, Hopewell Centre 183 Queen's Road East 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
	Standard Chartered Bank (Hong Kong) Limited 4–4A Des Voeux Road Central Hong Kong
Underwriter	BCG Chinastar International Investment Limited Rooms 2702–3, 27/F Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai Hong Kong

Legal advisers to the Company for the Rights Issue	Jun He Law Offices Suite 3701–10 37th Floor, Jardine House 1 Connaught Place, Central Hong Kong

6. 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$*
31 October 2014	0.590
28 November 2014	0.510
31 December 2014	0.415
30 January 2015	0.450
27 February 2015	0.430
31 March 2015	0.510
2 April 2015 (which was the Last Trading Day)	0.600
30 April 2015	0.530
8 May 2015 (which was the Latest Practicable Date)	0.540

The highest and lowest closing prices per Share recorded on the Stock Exchange during the Relevant Period were HK$0.680 on 22 April 2015 and HK$0.395 on 9 December 2014, respectively.

7. DISCLOSURE OF INTERESTS

(a) Interests of the Directors and chief executives in the Company

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.

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.

(b) 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) were as follows:

Name of Shareholders	Nature of interests	Number of Shares/ underlying Shares held	Approximate percentage of shareholdings
Beijing Capital (HK)	Beneficial owner *(Note 1)*	2,587,883,803 (L)	54.69%
Beijing Capital	Interest of a controlled corporation *(Note 1)*	2,611,093,803 (L)	55.19%
Beijing Capital Group	Interest of a controlled corporation *(Note 1)*	2,611,093,803 (L)	55.19%

(L) denotes a long position

Notes:

1. Shares represent 2,318,918,286 Shares and 268,965,517 underlying Shares which may be issuable upon conversion of all the outstanding amount of the convertible bonds held by Beijing Capital (HK) which was a wholly-owned subsidiary of Beijing Capital and 23,210,000 Shares held by BC Water Investments Co., Ltd., an indirect wholly-owned subsidiary of Beijing Capital. Beijing Capital is in turn controlled by Beijing Capital Group. As such, Beijing Capital Group and Beijing Capital were deemed to have interest in the said Shares and underlying Shares held by Beijing Capital (HK) and BC Water Investments Co., Ltd. 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.

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.

(c) Interests of the Company in the Underwriter and parties acting in concert

As at the Latest Practicable Date, the Company did not have any interest in the shares, options, warrants, derivatives and securities carrying conversion or subscription rights into shares of the Underwriter, Beijing Capital (HK), BC Water or their associates.

(d) Interest of the Directors in the Underwriter and parties acting in concert

As at the Latest Practicable Date, the entire issued share capital of the Underwriter was beneficially owned by Beijing Capital Group 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, Beijing Capital (HK), BC Water or their associates.

8. DEALING IN SECURITIES

Dealings in securities of the Company

During the Relevant Period, none of the Directors, the Underwriter, Beijing Capital (HK) or BC Water, their 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 and parties acting in concert

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, Beijing Capital (HK) or BC Water.

9. FURTHER INFORMATION RELATING TO THE UNDERWRITER AND THE PARTIES ACTING IN CONCERT AND THE WHITEWASH WAIVER

Set out below are details of the Underwriter and the parties acting in concert with it and their respective directors:

(a) Members of the board of directors of the Underwriter

	Address	**Members of the board of directors**
The Underwriter	Rooms 2702-3, 27th Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wan Chai, Hong Kong	1. Mr. Wu Lishun (吳禮順先生) 2. Mr. Liu Yongzheng (劉永政先生) 3. Mr. Yang Weibin (楊維彬先生)
Beijing Capital Group	15th Floor, Office Building, Jade Palace Hotel, No. 76 Zhichuin Road, Haidian District, Beijing, the PRC	1. Mr. Liu Xiaoguang (劉曉光先生) 2. Mr. Wang Hao (王灝先生) 3. Mr. Song Fengjing (宋豐景先生) 4. Mr. Shen Jianping (沈建平先生) 5. Mr. Li Songping (李松平先生) 6. Mr. Xie Dechun (謝德春先生)
Beijing Capital (HK)	Units 1613–1618, 16th Floor, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong	1. Mr. Liu Xiaoguang (劉曉光先生) 2. Mr. Yan Li (閻利先生) 3. Mr. Yu Changjian (俞昌建先生) 4. Mr. Cao Guoxian (曹國憲先生) 5. Mr. Song Fengjing (宋豐景先生)

	Address	Members of the board of directors
BC Water	P.O. Box 3321, Road Town, Tortola, British Virgin Islands	1. Mr. Cao Guoxian (曹國憲先生) 2. Ms. Liu Jing (劉靜女士)
Beijing Capital	15th Floor, Office Building, Jade Palace Hotel, No.76 Zhichun Road, Haidian District, Beijing, the PRC	*Executive Directors:* 1. Mr. Liu Xiaoguang (劉曉光先生) 2. Mr. Wang Hao (王灝先生) 3. Mr. Liu Yongzheng (劉永政先生) 4. Mr. Su Zhaohui (蘇朝暉先生) 5. Mr. Yu Changjian (俞昌建先生) 6. Mr. Zhang Hengjie (張恒傑先生) 7. Mr. Chang Weike (常維柯先生) *Independent Non-Executive Directors:* 8. Mr. Leng Ke (冷克先生) 9. Mr. Qu Jiuhui (曲久輝先生) 10. Mr. Cheng Xitai (盛希泰先生) 11. Mr. Ma Guangyuan (馬光遠先生)

10. FURTHER INFORMATION RELATING TO THE COMPANY AND THE WHITEWASH WAIVER

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 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) save as disclosed in this circular, none of the Directors had any interest in the Shares, options, warrants, derivatives and securities carrying conversion or subscription rights into Shares and therefore none of the Directors had any voting rights in the Company to vote for or against the proposed Rights Issue, the Whitewash Waiver, the proposed Increase in Authorised Share Capital and the transactions contemplated thereunder at the EGM;

(f) 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;

(g) 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;

(h) 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 and/or the Whitewash Waiver;

(i) 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 and/or the Whitewash Waiver; 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, and/or the Whitewash Waiver or otherwise connected with the Rights Issue, the Underwriting Agreement and/or the Whitewash Waiver;

(j) 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;

(k) 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;

(l) save for the Underwriting Agreement and the Convertible Bond, 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;

(m) save that Beijing Capital (HK), which together with BC Water, are wholly-owned subsidiaries of Beijing Capital, owns 2,342,128,286 Shares and 268,965,517 underlyings 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;

(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;

(o) 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;

(p) none of the Underwriter and parties acting in concert with the Underwriter or the Company has received any irrevocable commitment to vote for or against the Rights Issue, the Underwriting Agreement and/or the Whitewash Waiver;

(q) the Underwriter does not have any powers of compulsory acquisition in respect of the Rights Shares; and

(r) no finance arrangements were made by the Underwriter in respect of the Rights Issue and there were no lenders or arrangers of such finance arrangements.

11. 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 short term loan agreement dated 13 May 2013 entered into between the Company as borrower and Quam Finance Limited as lender in respect of a short term loan facility of up to HK$30 million;

(b) the short term loan agreement dated 13 May 2013 entered into between the Company as borrower and Beijing Capital (HK) as lender in respect of a short term loan of up to HK$50 million;

(c) the deed of release dated 4 June 2013 entered into between the Company, its subsidiaries as the guarantors, Beijing Capital (HK) as the subordinated creditor, and Fourwinds Capital Management Limited and Waste Resources G.P. Limited as the fund, in respect of the release of the bond deed dated 13 April 2010;

(d) the supplemental deed dated 24 June 2013 entered into between the Company and Beijing Capital (HK) in respect of the amendment to the terms and conditions of the convertible note in the amount of HK$177 million;

(e) the acquisition agreement dated 9 August 2013 entered into between Capital Solid Green Energy Investment Limited, a wholly-owned subsidiary of the Company, Richway Investment Management Limited and Huizhou Energy(s) Pte. Ltd. in respect of the acquisition of 97.85% interest of Huizhou Guanghui Energy Company Limited;

(f) the acquisition agreement dated 3 September 2013 entered into between 北京首拓環能投資有限公司 (Beijing Capital Solid Environmental Energy Investment Limited*), an indirect wholly-owned subsidiary of the Company and the vendors, namely 陳耀武 (Mr. Chen Yaowu*), 張玉道 (Mr. Zhang Yudao*), 張立飛 (Mr. Zhang Lifei*) and 淮安市雙龍偉業科技有限公司 (Huaian Shuanglong Weiye Technology Company Limited*) in respect of the acquisition of 55% interest of 江蘇蘇北廢舊汽車家電拆解再生利用有限公司 (Jiangsu Subei Waste Vehicles and Household Appliances Dismantling Recycling Ltd.*);

(g) the loan agreement dated 16 October 2013 entered into between the Company as borrower and Beijing Capital (HK) as lender in respect of provision the loan in the principal amount of HK$220 million;

(h) the share pledge agreement dated 16 October 2013 entered into between the Company and Beijing Capital (HK) in relation to the pledge of the Company's 60% equity interest in 北京一清百瑪士綠色能源有限公司(Beijing Yiqing Biomax Green Energy Park Co., Ltd.*), 91.75% equity interest in 都勻市科林環保有限公司 (Duyun Kelin Environment Company Limited*), 80% equity interest in 甕安縣科林環保有限公司 (Weng'an Kelin Environment Company Limited*) and 46% equity interest in 深圳粵能環保再生能源有限公司 (Shenzhen Yueneng Waste-to-Energy Ltd.*), in favour of Beijing Capital (HK) as security for the loan under the loan agreement as stated in (g) above;

(i) the agreement dated 17 November 2013 entered into between the 揚州首拓環保產業發展有限公司 (Yangzhou Capital Solid Environmental Development Limited*), a wholly owned subsidiary of the Company and 揚州市城市管理局 (Yangzhou City Urban Management Commission*) in respect of incorporating a project company with registered capital not less than RMB50 million in Yangzhou City, Jiangsu Province, the People's Republic of China, which will be responsible for investing, building and operating a solid waste treatment project under Build-Operate-Transfer (BOT) arrangement with a concessionary period of 28 years;

(j) the loan agreement dated 26 March 2014 entered into between the Company as borrower and Beijing Capital (HK) as lender in respect of provision the loan in the principal amount of HK$150 million;

(k) the share pledge agreement dated 26 March 2014 entered into between the Company and Beijing Capital (HK) in relation to the pledge of the Company's 55% equity interest in 江蘇蘇北廢舊汽車家電拆解再生利用有限公司 (Jiangsu Subei Waste Vehicles and Household Appliances Dismantling Recycling Ltd.*) in favour of Beijing Capital (HK) as security for the loan under the loan agreement as stated in (j) above;

(l) the placing agreement dated 31 March 2014 and the supplemental placing agreement dated 1 April 2014 entered into between the Company and Quam Securities Company Limited as placing agent in respect of the placing of up to 370,000,000 warrants, on a best effort basis, at the placing price of HK$0.012 per warrant at a subscription price of HK$0.80 per warrant share;

(m) the supplemental deed dated 19 November 2014 entered into between the Company and Beijing Capital (HK) in respect of the amendment of certain terms and conditions of the Convertible Bonds; and

(n) the Underwriting Agreement.

12. 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.

13. 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.

14. DIRECTORS' INTERESTS IN ASSETS/CONTRACTS AND OTHER INTERESTS

As at the Latest Practicable Date, there were no contracts or arrangements in which a Director was materially interested and significant in relation to the business of the Group. As at the Latest Practicable Date, none of the Directors had, directly or indirectly, any interest in any assets which have since 31 December 2014 (being the date to which the latest published audited consolidated financial statements of the Company were made up) been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

15. 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

The experts do not have (i) any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; or (ii) any interest in any assets which have been, since the date to which the latest published audited consolidated financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

16. CONSENTS

The experts named in the paragraph headed "Qualification of experts" in this appendix have given and have not withdrawn their 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 included.

17. 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 2013 and 2014;

(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.

CAPITAL ENVIRONMENT HOLDINGS LIMITED
首 創 環 境 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 Capital Environment Holdings Limited (the "Company") will be held at 11:00 a.m. on 27 May, 2015, 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 21 April 2015 (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 4,731,504,664 and not more than 5,003,173,469 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 11 May, 2015 ("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$0.45 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 BCG Chinastar International Investment Limited as underwriter, (the "Underwriter"), Beijing Capital (Hong Kong) Limited and BC Water Investments Co., Ltd. pursuant to Note 1 on dispensations from Rule 26 of the Hong Kong Code on Takeovers and Mergers (the "Takeovers Code") (as defined in the Underwriting Agreement, which term is defined in the ordinary resolution numbered 1 set out in the notice convening this meeting) 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."

SPECIAL RESOLUTION

3. "THAT the authorised share capital of the Company be and is hereby increased from HK$600,000,000 divided into 6,000,000,000 Shares of a par value of HK$0.1 each to HK$1,500,000,000 divided into 15,000,000,000 Shares, by the creation of an additional 9,000,000,000 unissued Shares ("Increase in Authorised Share Capital") any one or more of the Directors be and is/are hereby authorised for and on behalf of the Company to sign, execute, perfect and deliver all such documents, instruments and agreements and o do all such nets or things deemed by him/them to be incidental to, ancillary to or in connection with the matters contemplated in and for the completion of the Increase in Authorised Share Capital."

By order of the Board
Capital Environment Holdings Limited
Yu Chang Jian
Chairman

Hong Kong, 11 May 2015

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 Level 22, Hopewell Centre, 183 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 11 May, 2015, BCG Chinastar International Investment 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.