



Capital Environment Holdings Limited  
首創環境控股有限公司

(Incorporated in the Cayman Islands with limited liability)  
(於開曼群島註冊成立之有限公司)  
Stock Code 股票代號 : 03989



Interim Report  
中期報告 2014

# Contents

- 2 Corporate Information
- 3 Management Discussion and Analysis
- 7 Report on Review of Condensed Consolidated Financial Statements
- 8 Interim Financial Report
  - Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income
  - Condensed Consolidated Statement of Financial Position
  - Condensed Consolidated Statement of Changes in Equity
  - Condensed Consolidated Statement of Cash Flows
  - Notes to the Condensed Consolidated Financial Statements
- 32 Disclosure of Interests and Other Information

# CORPORATE Information

## BOARD OF DIRECTORS

### Executive Directors

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

### Independent Non-executive Directors

Mr. Pao Ping Wing  
Mr. Cheng Kai Tai, Allen  
Ms. Chan Yee Wah, Eva  
Mr. Li Baochun (resigned on 8 August 2014)

## COMMITTEES

### Audit Committee

Ms. Chan Yee Wah, Eva (*Chairman*)  
Mr. Pao Ping Wing  
Mr. Cheng Kai Tai, Allen

### Nomination Committee

Mr. Yu Changjian (*Chairman*)  
Mr. Pao Ping Wing  
Mr. Cheng Kai Tai, Allen  
Ms. Chan Yee Wah, Eva

### Remuneration Committee

Mr. Pao Ping Wing (*Chairman*)  
Mr. Cheng Kai Tai, Allen  
Mr. Yu Changjian

## COMPANY SECRETARY

Ms. Wong Bing Ni

## AUTHORIZED REPRESENTATIVES

Mr. Yu Changjian  
Ms. Wong Bing Ni

## 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,  
16th Floor,  
Bank of America Tower,  
12 Harcourt Road, Central,  
Hong Kong

## AUDITORS

Deloitte Touche Tohmatsu

## LEGAL ADVISERS

Conyers Dill and Pearman  
Jun He Law Offices

## PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited  
The Hongkong and Shanghai Banking Corporation Limited

## SHARE REGISTRARS AND TRANSFER OFFICES

### Principal Registrar in Cayman Islands

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 Registrar in Hong Kong

Tricor Investor Services Limited  
Level 22, Hopewell Centre,  
183 Queen's Road East,  
Hong Kong

## CORPORATE WEBSITE

[www.cehl.com.hk](http://www.cehl.com.hk)

## STOCK CODE

03989

# MANAGEMENT Discussion and Analysis

## BUSINESS REVIEW

The economic outlook for 2014 remains uncertain. Sovereign debt problems in Europe, the fiscal cliff conundrum in the United States are amongst the main factors posing continual risks and uncertainties to the recovery and stability of major economies and financial markets around the world, despite the loose monetary measures taken by major central banks globally. In respect of the Group's waste treatment and waste-to-energy business, the Group is conservatively optimistic about the future development of the green energy industry. According to the "National Plan for Establishing Facilities for Treatment Of Urban Household Waste in a Non-Hazardous Way under the Twelfth Five-Year Plan" of the PRC issued in May 2012, the daily waste processing capacity of waste-to-energy shall be substantially increased from 89,625 tonnes at the end of 2010 to approximately 307,155 tonnes by the end of 2015 at an annual compound growth rate of approximately 28%.

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

As at 30 June 2014, the Group had ten waste treatment projects that commanded a total investment of approximately RMB2,887.8 million. The waste treatment facilities including incineration and anaerobic were designed with the annual capacity to process waste of approximately 2,008,050 tonnes which can generate on-grid electricity of approximately 579 million kWh annually. The dismantling scale of the electronic dismantling facility was approximately 3.2 million units annually.

## BUSINESS PROSPECTS

The Beijing Dongcun Sorting Comprehensive Treatment Plant ("Beijing Plant") of the Group is expected to be put into commercial operation at the end of 2014, and the Group's further development will benefit from its operation. The Beijing Plant is the first waste-to-energy project in the PRC applying the technology of anaerobic digestion. On 25 July 2013, the Group received a notice named "Notice of Accelerating the Construction of Dongcun Waste Sorting Comprehensive Treatment Plant" dated on 23 July 2013 from Beijing Municipal Commission of City Administration and Environment (北京市市政市容管理委員會) in relation to the amendments of the operational terms and conditions of Beijing Plant, making adjustments to the waste treatment capacity, the concessionary period and the minimum guaranteed volume of waste treatment of the Beijing Plant. On 14 April 2014, the Group received a notice named "Notice on the issues concerning the trial operation of Dongcun Waste Sorting Comprehensive Treatment Plant" issued by Beijing Municipal Commission of City Administration and Environment, which clarified the work in relation to the trial operation of the Beijing Plant and the treatment of waste sediment and leachate. According to the notice, the collected waste of the Beijing Plant has been incorporated into the system by Beijing Municipal Commission of City Administration and Environment since 10 June 2014.

The Beijing Plant is currently under trial operation and is progressing in line with plan generally. The coming few months will be critical as far as completion of the construction of the Beijing Plant is concerned and the Group is continuously monitoring the ongoing progress closely such that the trial operation can be successfully launched within the Group's anticipated timing at the end of 2014.

## Management Discussion and Analysis (Continued)

The Nanchang Solid Waste Incineration Power Generation Plant (“Nanchang Plant”) located in Nanchang Quanling continues to be under construction as at 30 June 2014. It is progressing in line with plan generally with stable construction, and is expected to enter into the trial run stage at the end of 2014. The Nanchang Plant is one of the representative projects that marks the high starting point of the Group, and it, for the first time, helped build up a whole-chain treatment system, integrating 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. In the operation of the plant, the pollutants such as dioxins and heavy metals could be efficiently removed, as the heavily polluted water produced by the garbage power plant will be fully retreated, realizing harmless target. In addition, the resulting waste residual can be reused by making it into products, such as ceramic tile.

The Xingtai Project was unilaterally cancelled by the People’s Government of Xingtai City on 2 December 2013. The Group is strengthening the communication and coordination with the People’s Government of Xingtai City and the Urban Management Administrative Law Enforcement Bureau of Xingtai City, and will complain to the relevant regulatory authorities, if necessary, to urge the People’s Government of Xingtai City to reserve the concession of municipal waste treatment of Xingtai City for the Group, and specifically, the Xingtai Project can be implemented by the improvement and expansion in the original site or the construction in a different site. If the project can not be implemented eventually, the management of the Group will require the People’s Government of Xingtai City to compensate the losses of the Group according to the relevant laws, so as to protect the interests of the Group and its Shareholders.

The procedures of changes on industrial and commercial registration of the project located in Guangdong Huizhou were completed on 1 July 2014. The site selection of the new waste treatment plant is in the process of disclosing. According to the plan, it is expected to treat 1,600 tonnes of waste daily upon construction completion of the new waste treatment plant. Currently, the old plant is in stable operation, with a daily treatment volume of 500 tonnes of waste.

The kitchen waste treatment project located in Jiangsu Yangzhou was tendered by the Group on 6 November 2013. The project company has been incorporated. The location of the project has been sited and the land leveling has been completed. The main equipment tendering and preliminary design of the project is under the way, and the construction will commenced at the second half of 2014.

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

Looking ahead, with stronger supporting policies from the PRC government and the continued comprehensive support from the substantial shareholder, the Group is confident that the Group 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 30 June 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.

## Management Discussion and Analysis (Continued)

### FINANCIAL REVIEW

#### OVERVIEW

The net loss attributable to the owners of the Company amounted to approximately HK\$39.9 million for the period under review, as compared to that of approximately HK\$48.4 million for the same period last year. The net loss for the period under review is mainly attributable to the loss on fair value change of Warrants of approximately HK\$33.3 million.

#### WASTE TREATMENT AND WASTE-TO-ENERGY BUSINESS

During the period under review, the Group's revenue for its waste treatment and waste-to-energy business reached approximately HK\$273.2 million, representing an increase of approximately 708.3%, as compared to same period last year.

For the period under review, the Group's gross profit is approximately 17.8%, as compared to that of 41.5% for the same period last year.

#### ADMINISTRATIVE EXPENSES

The Group's administrative expenses increased by approximately 45.8% to approximately HK\$46.8 million during the period under review.

The increase in administrative expenses is mainly attributable to the increase in staff costs, depreciation of property, plant and equipment, amortisation of intangible assets and legal and professional fees.

#### FINANCE COSTS

Finance costs, decreased by approximately 30.6% to approximately HK\$25.2 million, as compared to the same period last year. This decrease is mainly attributable to the decrease in interests on convertible bonds and convertible notes.

#### FINANCIAL POSITION

As at 30 June 2014, the Group had total assets amounting to approximately HK\$2,310.7 million, with approximately HK\$421.8 million of net assets attributable to owners of the Company. The net gearing ratio, which is calculated on the basis of total borrowings (net of pledged bank deposits and cash and bank balances) over the Group's total shareholders' equity, increased from approximately 0.74 as at 31 December 2013 to approximately 1.47 as at 30 June 2014. The current ratio, which is calculated on the basis of current assets over current liabilities, remain unchanged at approximately 1.17 as at 31 December 2013 and as at 30 June 2014.

In order to maximise the shareholders' return and the market capitalisation, the Group has internal policies in place so as to maintain its gearing ratio at a reasonable and acceptable level and to ensure the debt-to-total investment ratio for each project shall not be more than 60%. The Group has adopted a capital preservation policy for managing the funds raised but has not been utilised.

#### FINANCIAL RESOURCES

The Group finances its operations primarily with internally generated cash flow and loan facilities from shareholders and banks. As at 30 June 2014, the Group had cash and bank balances and pledged bank deposits of approximately HK\$555.9 million, representing a decrease of approximately HK\$77.7 million as compared to approximately HK\$633.6 million at the end of 2013. The decrease was mainly due to payment for construction of infrastructure in service concession arrangements during the period under review. Currently, most of the Group's cash is denominated in HK dollars and RMB.

## Management Discussion and Analysis (Continued)

### BORROWINGS

As at 30 June 2014, the Group had outstanding borrowings of approximately HK\$1,176.7 million, representing an increase of approximately HK\$185.6 million as compared to approximately HK\$991.1 million at the end of 2013. The borrowings comprised secured loans of approximately HK\$1,112.3 million and unsecured loans of approximately HK\$64.4 million. The borrowings are denominated in HK dollars and RMB. Approximately 57.2% and 42.8% of the borrowings are at fixed rate and variable rate.

### FOREIGN EXCHANGE EXPOSURE

The majority of the Group's sales, purchase and operating expenses were denominated in RMB, HK dollars and US dollars. Although the Group has been and will continue to be exposed to foreign currency exchange risks, the Board does not expect future currency fluctuations to materially impact the Group's operations. During the period, the Group has adopted no formal hedging policies and no instruments have been applied for foreign currency hedging purposes during the period under review. The management will continue to monitor the foreign exchange exposure flexibly and engage in timely and appropriate hedging activities when needed.

### CHARGES ON ASSETS

As at 30 June 2014, the Group's prepaid lease payments of approximately HK\$45.5 million and pledged bank deposits of HK\$45.0 million were pledged to secure banking facilities.

### CAPITAL COMMITMENT

As at 30 June 2014, the Group had capital commitment of approximately HK\$108.4 million in respect of the construction work under service concession arrangements, which were contracted but not provided for in the condensed consolidated financial statements.

### CONTINGENT LIABILITIES

As at 30 June 2014, the Group provide guarantees of approximately RMB10.8 million to a bank in respect of banking facilities granted to an associate.

### EMPLOYMENT INFORMATION

As at 30 June 2014, the Group had about 480 employees in total, stationed mainly in the PRC, Hong Kong and Europe. The Group's emolument policies, which are reviewed periodically, are linked to the performance of individual employees and are based on the salary trends prevailing in the aforesaid regions.

In addition, the Group maintains a share option scheme for the purpose of providing incentives and rewards to eligible participants based on their individual contributions to the Group.

### PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the period.

### INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 30 June 2014 (six months ended 30 June 2013: nil).

# REPORT on Review of Condensed Consolidated Financial Statements

**TO THE BOARD OF DIRECTORS OF  
CAPITAL ENVIRONMENT HOLDINGS LIMITED  
(FORMERLY KNOWN AS NEW ENVIRONMENTAL ENERGY HOLDINGS LIMITED)**

*(incorporated in the Cayman Islands with limited liability)*

## INTRODUCTION

We have reviewed the condensed consolidated financial statements of Capital Environment Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 8 to 31, which comprise the condensed consolidated statement of financial position as of 30 June 2014 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six months period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

**Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

8 August 2014

# CONDENSED Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2014

	NOTES	Six months ended 30 June	
		2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
Revenue	4	273,202	33,820
Cost of sales		(224,644)	(19,799)
Gross profit		48,558	14,021
Other income, gains and losses	5	581	(14,646)
Administrative expenses		(46,839)	(32,055)
Gain on fair value change of embedded derivatives	21	16,150	10,329
Loss on fair value change of warrants	23	(33,298)	–
Share of results of an associate	14	6,561	6,964
Finance costs	6	(25,180)	(36,342)
Loss before tax		(33,467)	(51,729)
Income tax credit	7	200	1,217
Loss for the period	8	(33,267)	(50,512)
<b>Other comprehensive (expense) income:</b>			
<b>Items that will not be reclassified to profit or loss:</b>			
Exchange differences on translation:			
Exchange difference arising during the period		(18,344)	4,183
Exchange difference arising from an associate during the period		(3,603)	1,738
Other comprehensive (expense) income for the period		(21,947)	5,921
Total comprehensive expense for the period		(55,214)	(44,591)
(Loss) profit for the period attributable to:			
Owners of the Company		(39,913)	(48,376)
Non-controlling interests		6,646	(2,136)
		(33,267)	(50,512)
Total comprehensive (expense) income for the period attributable to:			
Owners of the Company		(59,985)	(42,098)
Non-controlling interests		4,771	(2,493)
		(55,214)	(44,591)
<b>LOSS PER SHARE</b>			
Basic	10	HK(0.86) cents	HK(2.46) cents
Diluted		HK(0.86) cents	HK(2.46) cents

# CONDENSED Consolidated Statement of Financial Position

At 30 June 2014

	NOTES	30 June 2014 HK\$'000 (unaudited)	31 December 2013 HK\$'000 (audited)
<b>Non-current assets</b>			
Property, plant and equipment	11	97,353	63,850
Intangible assets	12	43,863	21,660
Goodwill		13,810	13,810
Prepaid lease payments		70,060	62,525
Amounts due from grantors for contract work	13	738,111	641,200
Interest in an associate	14	120,328	116,719
Deposits paid for construction of infrastructure in service concession arrangements	15	288,037	222,282
Deposits, prepayments and other receivables	16(b)	25,000	10,256
		<b>1,396,562</b>	1,152,302
<b>Current assets</b>			
Inventories	17	16,223	23,972
Trade receivables	16(a)	177,645	176,777
Deposits, prepayments and other receivables	16(b)	120,598	94,414
Amounts due from grantors for contract work	13	27,485	15,682
Prepaid lease payments		1,238	1,270
Amount due from an associate	20	15,011	14,883
Pledged bank deposits		45,000	57,692
Bank balances and cash		510,920	575,932
		<b>914,120</b>	960,622
<b>Current liabilities</b>			
Trade payables	18(a)	30,002	30,014
Other payables and accruals	18(b)	84,749	100,183
Provisions	18(c)	9,039	9,270
Deferred income	18(d)	1,080	–
Taxation payable		47,781	47,469
Borrowings	19	329,012	384,045
Convertible notes	22	15,108	14,177
Convertible bonds	21	92,227	85,170
Embedded derivatives	21	132,962	149,112
Warrants	23	37,738	–
		<b>779,698</b>	819,440
<b>Net current assets</b>		<b>134,422</b>	141,182
<b>Total assets less current liabilities</b>		<b>1,530,984</b>	1,293,484

## Condensed Consolidated Statement of Financial Position (Continued)

At 30 June 2014

	NOTES	30 June 2014 HK\$'000 (unaudited)	31 December 2013 HK\$'000 (audited)
<b>Non-current liabilities</b>			
Deferred income	18(d)	42,670	–
Borrowings	19	847,652	607,077
Deferred tax liabilities		12,047	6,903
		<b>902,369</b>	613,980
		<b>628,615</b>	679,504
<b>Capital and reserves</b>			
Share capital	24	465,564	465,564
Reserves		(43,801)	16,184
Equity attributable to owners of the Company		<b>421,763</b>	481,748
Non-controlling interests		<b>206,852</b>	197,756
		<b>628,615</b>	679,504

# CONDENSED Consolidated Statement of Changes in Equity

For the six months ended 30 June 2014

	Attributable to owners of the Company									
	Share capital	Share premium	Translation reserve	Share option reserve	Special reserve	Convertible notes equity reserve	Accumulated losses	Total	Non-controlling interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2013 (audited)	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	-	-	-	-	-	-	(48,376)	(48,376)	(2,136)	(50,512)
Exchange differences arising on translation	-	-	4,540	-	-	-	-	4,540	(357)	4,183
Exchange differences arising from an associate on translation	-	-	1,738	-	-	-	-	1,738	-	1,738
Total comprehensive income (expense) for the period	-	-	6,278	-	-	-	(48,376)	(42,098)	(2,493)	(44,591)
Disposal of subsidiary	-	-	-	-	(25,155)	-	25,155	-	-	-
At 30 June 2013 (unaudited)	186,226	1,542,219	74,979	227	-	174,156	(1,959,157)	18,650	(12,024)	6,626
At 1 January 2014 (audited)	465,564	1,966,372	84,595	98	-	141	(2,035,022)	481,748	197,756	679,504
(Loss) profit for the period	-	-	-	-	-	-	(39,913)	(39,913)	6,646	(33,267)
Exchange differences arising on translation	-	-	(16,469)	-	-	-	-	(16,469)	(1,875)	(18,344)
Exchange differences arising from an associate on translation	-	-	(3,603)	-	-	-	-	(3,603)	-	(3,603)
Total comprehensive (expense) income for the period	-	-	(20,072)	-	-	-	(39,913)	(59,985)	4,771	(55,214)
Capital contribution from non-controlling interests of a subsidiary	-	-	-	-	-	-	-	-	2,500	2,500
Acquisition of a subsidiary (Note 25)	-	-	-	-	-	-	-	-	1,825	1,825
At 30 June 2014 (unaudited)	<b>465,564</b>	<b>1,966,372</b>	<b>64,523</b>	<b>98</b>	<b>-</b>	<b>141</b>	<b>(2,074,935)</b>	<b>421,763</b>	<b>206,852</b>	<b>628,615</b>

Note:

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 six months ended 30 June 2013, the Group has disposed Full Prosper to an independent third party.

# CONDENSED Consolidated Statement of Cash Flows

For the six months ended 30 June 2014

	NOTES	Six months ended 30 June	
		2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
NET CASH USED IN OPERATING ACTIVITIES		<b>(106,778)</b>	(22,146)
NET CASH USED IN INVESTING ACTIVITIES			
Proceeds from disposal of property, plant and equipment		301	–
Purchase of prepaid lease payment		(9,650)	–
Purchase of property, plant and equipment	11	(24,603)	(1,075)
Deposits paid to contractors for construction of infrastructure in service concession arrangements		(71,312)	(73,467)
Deposits paid for acquisition of a potential acquiree	16(b)	(15,000)	(12,642)
Advance to a potential acquiree	16(b)	(5,801)	(15,500)
Advance to an associate		–	(2,528)
Acquisition of a subsidiary	25	(34,675)	–
Withdrawal of pledged bank deposits		12,692	–
Other investing cash flows		403	1,131
		<b>(147,645)</b>	(104,081)
NET CASH FROM FINANCING ACTIVITIES			
Repayment of borrowings		(128,688)	(2,377)
Interest paid		(11,612)	–
New borrowings raised		333,702	485,942
Proceeds from rights issue		–	553,891
Payment for redemption of convertible bonds		–	(210,475)
Share issuance expenses		–	(2,385)
Proceeds from issue of warrants	23	3,940	–
Capital contribution from non-controlling interest of a subsidiary		2,500	–
		<b>199,842</b>	824,596
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		<b>(54,581)</b>	698,369
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		<b>(10,431)</b>	65
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		<b>575,932</b>	263,239
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, represented by bank balances and cash		<b>510,920</b>	961,673

# NOTES to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2014

## 1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 (“HKAS 34”) *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

## 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2014 are the same as those followed in the preparation of the Group’s consolidated financial statements for the year ended 31 December 2013.

### Application of new and revised HKFRSs effective in the current period

In the current interim period, the Group has applied, for the first time, the following new or revised Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA.

Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities
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	Leases

### Amendments to HKAS 32 “Offsetting Financial Assets and Financial Liabilities”

The amendments to HKAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of ‘currently has a legally enforceable right of set-off’ and ‘simultaneous realization and settlement’.

The directors of the Company do not anticipate that the application of these amendments to HKAS 32 will have a significant impact on the Group’s consolidated financial statements as the Group does not have any significant financial assets and financial liabilities that qualify for offset.

In addition, the Group has applied the following accounting policy for warrants issued during the current interim period:

Warrants which meet the definition of a derivative are initially recognised at fair value on the date on which the warrant agreement is entered into and are subsequently measured at fair value. Changes in the fair value of warrants are recognised in the statement of profit or loss as they arise. Transaction costs that relate to the issue of the warrants are charged to profit or loss immediately.

## Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

### 2. PRINCIPAL ACCOUNTING POLICIES (continued)

#### 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 <sup>1</sup>
HKFRS 14	Regulatory Deferral Accounts <sup>6</sup>
HKFRS 15	Revenue from Contracts with Customers <sup>5</sup>
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures <sup>1</sup>
Amendments to HKFRS 31	Accounting for Acquisitions of Interests in Joint Operations <sup>4</sup>
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation <sup>4</sup>
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants <sup>4</sup>
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions <sup>2</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010 – 2012 Cycle <sup>3</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011 – 2013 Cycle <sup>2</sup>

<sup>1</sup> Available for application – the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalized.

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2014.

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2014, with limited exceptions.

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2016.

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2017.

<sup>6</sup> Effective for first annual HKFRS financial statements beginning on or after 1 January 2016.

Save as disclosed in the annual report for the year ended 31 December 2013, the directors of the Company anticipate that the application of the new and revised HKFRSs issued but not yet effective will have no material impact on the results and financial position of the Group.

### 3. 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 is provided.

### 4. REVENUE

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

	Six months ended 30 June	
	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
Provision of construction services under service concession arrangements	108,744	19,423
Provision of operation services under service concession arrangements	5,061	2,370
Effective interest income on amounts due from grantors for contract work (Note)	21,298	11,130
Provision of dismantling services	131,616	–
Consultancy fee income	6,483	897
	<b>273,202</b>	<b>33,820</b>

## Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

### 4. REVENUE (continued)

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 norm for the classification of the revenue generated under the Build-Operate-Transfer ("BOT") arrangements. Comparative figures have been re-presented to achieve consistent presentation.

### 5. OTHER INCOME, GAINS AND LOSSES

	Six months ended 30 June	
	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
Bank interest income	403	359
Interest income on amount due from an associate	501	727
Total interest income	904	1,086
Gain on redemption of convertible bonds	–	3,217
Impairment loss recognised in respect of trade receivables (Note 16(a))	–	(7,536)
Loss on disposal of fixed assets	(486)	–
Provision for penalty charges in relation to construction of waste-to-energy plant	–	(11,418)
Others	163	5
	<b>581</b>	<b>(14,646)</b>

### 6. FINANCE COSTS

	Six months ended 30 June	
	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
Interests on:		
Borrowings	17,192	8,863
Convertible bonds (Note 21)	7,057	17,592
Convertible notes	931	9,887
	<b>25,180</b>	<b>36,342</b>

## Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

### 7. INCOME TAX CREDIT

No provision for Hong Kong Profits Tax has been made in the condensed consolidated financial statements as the Group had no assessable profits arising from Hong Kong for both periods.

Under the Law of the People's Republic of China (the "PRC") on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the Enterprise Income Tax rate applicable to the Group's subsidiaries in the PRC is 25%.

	Six months ended 30 June	
	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
Current income tax:		
PRC Enterprise Income Tax ("EIT")	5,136	414
Over provision in prior year – Hong Kong	(3,717)	–
	<b>1,419</b>	414
Deferred tax:		
Current period	(1,619)	(1,631)
	<b>(200)</b>	(1,217)

### 8. LOSS FOR THE PERIOD

Loss for the period has been arrived at after charging the following items:

	Six months ended 30 June	
	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
Directors' and chief executive's emoluments	2,970	2,772
Staff's salaries and allowances	13,734	10,580
Retirement benefit scheme contribution	2,332	1,659
	<b>16,066</b>	12,239
Auditor's remuneration	691	668
Depreciation of property, plant and equipment	2,767	1,415
Amortisation of prepaid lease payments	621	27
Rental expenses	2,738	2,337
Amortisation of intangible assets (Note)	6,297	734
Legal and professional fees	6,578	3,369

Note:

During the six months ended 30 June 2014, approximately HK\$5,861,000 and approximately HK\$436,000 (for the six months ended 30 June 2013: HK\$nil and HK\$734,000) of amortisation of intangible assets were included in cost of sales and administrative expenses, respectively.

## Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

### 9. DIVIDEND

No dividend was paid, declared or proposed during both interim periods. The directors of the Company have determined that no dividend will be paid in respect of the interim period.

### 10. LOSS PER SHARE

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

	Six months ended 30 June	
	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
Loss for the period attributable to owners of the Company for the purposes of basic and diluted loss per share	<b>(39,913)</b>	(48,376)
<b>Number of shares</b>		
	2014 '000 (Note)	2013 '000 (Note)
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	<b>4,655,643</b>	1,969,709

Note:

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

### 11. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of HK\$787,000, with cash consideration of HK\$301,000, resulting in loss on disposal of HK\$486,000.

During the current interim period, the Group acquired buildings, construction in progress, plant and machinery, leasehold improvements, furniture, fixtures and equipment and motor vehicles of approximately HK\$13,612,000, HK\$6,146,000, HK\$1,779,000, HK\$nil, HK\$1,445,000 and HK\$1,621,000 respectively (for the six months ended 30 June 2013: HK\$nil, HK\$nil, HK\$nil, HK\$121,000, HK\$472,000 and HK\$482,000 respectively).

The Group also acquired buildings, plant and machinery, furniture, fixtures and equipment and motor vehicles of approximately HK\$11,667,000, HK\$2,543,000, HK\$58,000 and HK\$857,000 respectively through acquisition of 安徽鑫港環保科技有限公司 (Anhui Xin'gang Environmental Technology Company Limited\*) ("Anhui Xin'gang") (Note 25).

\* For identification purpose only

## Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

### 12. INTANGIBLE ASSETS

During the current interim period, addition in licenses and franchises represent the rights to receive government subsidiaries 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(第三批) (third batch of Waste Electric and Electronic Products Treatment Catalogue\*). Licenses and franchises of approximately HK\$28,500,000 were acquired through the acquisition of Anhui Xin'gang (Note 25). These licenses and franchises are amortised on a straight-line basis over 5.38 years.

### 13. AMOUNTS DUE FROM GRANTORS FOR CONTRACT WORK

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. Revenue and costs relating to the operating phase of the contract are accounted for in accordance with HKAS 18.

Several subsidiaries of the Company entered into service concession arrangements with certain government authorities in the PRC ("Grantors") in respect of their waste treatment and waste-to-energy businesses. These subsidiaries acted as operators in these service concession arrangements to construct waste treatment and waste-to-energy plants on a BOT basis, and 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.

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 directors of the Company consider that the possibility of exceeding the threshold (minimum level of municipal waste to be processed per day) of these projects is remote at this stage and hence no intangible assets are recognised.

During the six months ended 30 June 2014, the Group recognised revenue from construction services of approximately HK\$108,744,000 (for the six months ended 30 June 2013: HK\$19,423,000) by reference to the stage of completion of the construction work and revenue from operation services of approximately HK\$5,061,000 (for the six months ended 30 June 2013: HK\$2,370,000).

The Group also recognised the effective interest income on amounts due from grantors for contract work of approximately HK\$21,298,000 (for the six months ended 30 June 2013: HK\$11,130,000) as revenue. The effective interest rates ranged from 3.6% to 13.6% during the six months ended 30 June 2014 (during the six months ended 30 June 2013: ranged from 3.6% to 11.7%).

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 30 June 2014, provision of approximately HK\$1,000,000 (as at 31 December 2013: HK\$1,025,000) (see Note 18(c)) has been recognised in respect of the contractual obligations to maintain or restore these waste treatment and waste-to-energy plants to specified conditions.

\* For identification purpose only

## Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

### 14. INTEREST IN AN ASSOCIATE

As at 30 June 2014, the Group held 46% (2013: 46%) equity interest in 深圳粵能環保再生能源有限公司 (Shenzhen Yueneng Waste-to-Energy Ltd\*) ("SZ Yueneng"). SZ Yueneng operates a waste treatment and waste-to-energy plant in Shenzhen, the PRC on a BOT basis. The share of results of an associate of approximately HK\$6,561,000 was recognised for the six months ended 30 June 2014 (for the six months ended 30 June 2013: HK\$6,964,000).

### 15. DEPOSITS PAID FOR CONSTRUCTION OF INFRASTRUCTURE IN SERVICE CONCESSION ARRANGEMENTS

The amount represented 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, 城市建設研究院 (Urban Construction Design & Research Institute\*) ("Urban Construction Institute"), with aggregate carrying amount of approximately HK\$154,588,000 (31 December 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.

In 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, net of the estimated allowable expenses incurred by Urban Construction Institute of approximately RMB5,980,000 (approximately HK\$7,475,000) (31 December 2013: RMB5,980,000 (approximately HK\$7,667,000)), should be refunded to the Group.

During the six months ended 30 June 2014, an independent third party was appointed to verify the validity of the expense amount claimed by Urban Construction Institute. As at 30 June 2014, the estimated recoverable amount of the deposits of HK\$154,588,000 (2013: HK\$158,551,000), net of estimated allowable expenses incurred by Urban Construction Institute, is expected to be recovered by the directors of the Company, taking into account the legal opinion provided by the independent lawyer.

\* For identification purpose only

## Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

### 16. TRADE RECEIVABLES/DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

#### (a) Trade receivables

The Group allows an average credit period of 180 days to its trade customers.

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 the reporting period is as follows:

	30 June 2014 HK\$'000 (unaudited)	31 December 2013 HK\$'000 (audited)
0 – 90 days	56,344	24,154
91 – 180 days	39,184	495
181 – 360 days	78,732	152,128
Over 360 days	3,385	–
	<b>177,645</b>	<b>176,777</b>

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

As at 30 June 2014, 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\$82,117,000 (as at 31 December 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 is limited because the customer is a state-owned enterprise.

During the six months ended 30 June 2013, an impairment loss of approximately HK\$7,536,000 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\*) was 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. No impairment loss was recognised during the six months ended 30 June 2014.

\* For identification purpose only

## Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

### 16. TRADE RECEIVABLES/DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES (continued)

#### (b) Deposits, prepayments and other receivables

At 31 December 2013, RMB8,000,000 (approximately HK\$10,256,000) was paid as part of the consideration for the acquisition of equity interests of 惠州廣惠能源有限公司 (Huizhou Guanghui Energy Company Limited\*) ("Huizhou Guanghui") based on the acquisition agreement dated on 9 August 2013 and RMB12,000,000 (approximately HK\$15,000,000) was further paid during the six months period ended 30 June 2014. At 30 June 2014, total deposit for acquisition of RMB20,000,000 (approximately HK\$25,000,000) was paid and the amount is included in non-current assets.

The acquisition of equity interests of Huizhou Guanghui was subsequently completed on 1 July 2014. Details of the acquisition are set out in Note 31.

Deposits, prepayments and other receivables also include (i) approximately HK\$43,897,000 (2013: HK\$39,073,000) of advance to Huizhou Guanghui which is unsecured and interest free during current interim period; (ii) advances to suppliers of approximately HK\$40,385,000 (2013: HK\$47,390,000); (iii) deposit paid for project tendering of approximately HK\$12,500,000 (2013: HK\$nil); (iv) prepaid legal and professional fee of approximately HK\$7,860,000 (2013: HK\$nil); (v) value-added tax recoverable of approximately HK\$3,474,000 (2013: HK\$nil) and other deposits, prepayments, and other receivables of approximately HK\$12,482,000 (2013: HK\$7,951,000).

### 17. INVENTORIES

	30 June 2014 HK\$'000 (unaudited)	31 December 2013 HK\$'000 (audited)
Raw materials	5,176	7,235
Finished goods	11,047	16,737
	<b>16,223</b>	<b>23,972</b>

\* For identification purpose only

## Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

### 18. TRADE PAYABLES/OTHER PAYABLES AND ACCRUALS/PROVISIONS

#### (a) Trade payables

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

	30 June 2014 HK\$'000 (unaudited)	31 December 2013 HK\$'000 (audited)
0 – 90 days	7,725	553
91 – 180 days	476	–
181 – 360 days	896	6,251
Over 360 days	20,905	23,210
	<b>30,002</b>	<b>30,014</b>

#### (b) Other payables and accruals

	30 June 2014 HK\$'000 (unaudited)	31 December 2013 HK\$'000 (audited)
Accrued interest	7,054	1,474
Accrued professional fee	3,642	4,921
Business tax payable	1,674	1,717
Accrued payroll	449	4,382
Accrued purchase	49,936	67,135
Others	21,994	20,554
	<b>84,749</b>	<b>100,183</b>

#### (c) Provisions

The amounts mainly represented expected loss relating to service concession arrangements of Beijing Dongcun Sorting Comprehensive Treatment Plant of approximately HK\$8,039,000 (2013: HK\$8,245,000) and provision for maintenance of approximately HK\$1,000,000 (2013: HK\$1,025,000).

#### (d) Deferred Income

During the six months ended 30 June 2014, 南昌百瑪士綠色能源有限公司 (Nanchang Biomax Green Energy Co., Ltd\*), 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 30 June 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.

\* For identification purpose only

## Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

### 19. BORROWINGS

During the current interim period, the Group obtained the following new borrowings:

- (i) In October 2013, the Group entered into a fixed-rate long-term loan agreement with the substantial shareholder, Beijing Capital (HK) Limited ("Beijing Capital (HK)"), of the Group, 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 interim period. 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.
- (ii) The Group entered into a fixed-rate long-term loan agreement of HK\$150,000,000 with Beijing Capital (HK) during the six months ended 30 June 2014. 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.
- (iii) The Group entered into a fixed-rate short-term loan agreement of US\$8,000,000 (approximately HK\$61,912,000) with Beijing Capital (HK) during the six months ended 30 June 2014. The loan will be matured in September 2014. The balance is unsecured and carries interest at a fixed rate of 5.50% per annum.
- (iv) The Group entered into a variable-rate loan agreement of approximately HK\$61,790,000 (RMB49,432,000) with Industrial and Commercial Bank of China, a non-related party of the Group, for operating purpose. The loan is repayable in nine years paid quarterly starting from April 2015. The balance is secured by the BOT contract that gives right to the Group to operate the waste treatment project in Beijing and carries interest at PRC benchmark loan rate per annum.

During the current interim period, the Group has repayment of the borrowings of approximately HK\$128,688,000 (2013: HK\$134,462,000).

### 20. AMOUNT DUE FROM AN ASSOCIATE

In June 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 period ended 30 June 2014, the associate entered into another supplementary agreement with the Group to extend the advance of RMB11,100,000 (approximately HK\$15,011,000) for 12 months. The interest rate remained at PRC Benchmark Loan Rate plus 20% per annum.

## Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

### 21. CONVERTIBLE BONDS/EMBEDDED DERIVATIVES

Save as disclosed in the Company's 2013 annual report relating to the convertible bonds/embedded derivatives, except for the following.

The movements of the liability component and embedded derivatives of the convertible bonds for the period are set out as below:

	<b>Liability component</b> <i>HK\$'000</i>	<b>Embedded derivatives</b> <i>HK\$'000</i>
At 31 December 2013 (audited)	85,170	149,112
Effective interest charged to profit or loss (Note 6)	7,057	–
Gain on fair value change of embedded derivatives	–	(16,150)
	<hr/>	<hr/>
At 30 June 2014 (unaudited)	<u>92,227</u>	<u>132,962</u>

The fair values of the embedded derivatives at 31 December 2013 and 30 June 2014 for the convertible bonds 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:

	<b>30 June 2014</b>	31 December 2013
<b>Convertible Bonds</b>		
Share price	<b>HK\$0.66</b>	HK\$0.68
Risk-free rate	<b>0.1%</b>	0.19%
Time to maturity	<b>0.5 years</b>	1 year
Dividend yield	<b>0%</b>	0%
Volatility	<b>45.2%</b>	76.68%

At 30 June 2014 and 31 December 2013, the convertible bonds with principal amount of HK\$100,000,000 remained outstanding with Beijing Capital (HK).

## Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

### 22. CONVERTIBLE NOTES

Save as disclosed in the Company's 2013 annual report relating to the Convertible Notes, except for the following.

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

	<i>HK\$'000</i>
<b>Liability component</b>	
At 31 December 2013	14,177
Effective interest charged to profit or loss (Note 6)	931
	<hr/>
At 30 June 2014	15,108
	<hr/> <hr/>
<b>Equity component</b>	
At 31 December 2013 and 30 June 2014	141
	<hr/> <hr/>

At 30 June 2014 and 31 December 2013, Convertible Notes with principal amount of HK\$16,000,000 remained outstanding with Winner Performance Limited.

### 23. 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 HK\$37,738,000 and loss of HK\$33,298,000 arising from the change in fair value was charged in the statement of profit or loss during the six months ended 30 June 2014.

For the period ended 30 June 2014, no registered holders of the warrants exercised their right to subscribe any shares of the Company.

## Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

### 24. SHARE CAPITAL

	Number of ordinary shares	Amount HK\$'000
Ordinary shares of HK\$0.1 each		
Authorised:		
At 1 January 2013, 30 June 2013, 1 January 2014 and 30 June 2014	6,000,000,000	600,000
Issued and fully paid		
At 1 January 2013 and 30 June 2013	1,862,257,039	186,226
Issue of shares under rights issue	2,793,385,557	279,338
At 31 December 2013, 1 January 2014 and 30 June 2014	4,655,642,596	465,564

### 25. ACQUISITION OF A SUBSIDIARY

On 13 May 2014, a wholly owned subsidiary of the Company acquired 95% equity interest in Anhui Xin'gang from an independent third party, for cash consideration of RMB27,740,000 (approximately HK\$34,675,000). Anhui Xin'gang is principally engaged in the recycling and dismantling of waste electrical and electronic equipment. The acquisition has been accounted for using purchase method. No goodwill arose from the acquisition of Anhui Xin'gang.

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

	HK\$'000 (unaudited)
Property, plant and equipment	15,125
Intangible asset	28,500
Deferred tax liabilities	(7,125)
	36,500

#### Non-controlling interests

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

Net cash outflow on acquisition represents the consideration paid in cash of HK\$34,675,000.

## Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

### 25. ACQUISITION OF A SUBSIDIARY (continued)

#### Impact of acquisition on the results of the Group

Anhui Xin'gang contributed loss approximately HK\$33,800 to the Group's loss for the period between the date of acquisition and 30 June 2014.

If the acquisition had been completed on 1 January 2014, total group loss for the period ended 30 June 2014 would have been HK\$33,419,000. The proforma information is for illustrative purposes only and is not necessarily an indication of the results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2014, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had Anhui Xin'gang been acquired at the beginning of the interim period, the directors calculated depreciation and amortisation of plant and equipment based on the recognised amounts of plant and equipment at the date of the acquisition.

### 26. SHARE-BASED PAYMENTS

The Company has a share option scheme for eligible directors and employees of the Group. The number of share options outstanding and exercisable held by the Group's directors and employees at 1 January 2014 and 30 June 2014 is 2,703,288.

### 27. CAPITAL COMMITMENTS

	30 June 2014 HK\$'000 (unaudited)	31 December 2013 HK\$'000 (audited)
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of construction work under service concession arrangements	108,366	400,879

### 28. OTHER COMMITMENTS

- (a) On 18 October 2011, a wholly owned subsidiary of the Company and Guangdong Environmental Engineering & Equipment General Corporation received a notice of successful tender from Guangzhou City Management Committee, a government authority, to set up a project company with a registered capital of not less than RMB97,870,000 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 the wholly owned subsidiary of the Company. The tender agreement is effective at 30 June 2014. The capital of the project company has yet to be registered at 30 June 2014.

## Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

### 28. OTHER COMMITMENTS (continued)

- (b) On 17 November 2013, a wholly owned subsidiary of the Company entered into a 揚州市餐廚廢棄物集中收運處理BOT項目協議書 (Agreement for Kitchen Waste Collection and Treatment Project in Yangzhou City under BOT arrangement\*) (the "Yangzhou BOT Agreement") with 揚州市城市管理局 (Yangzhou City Urban Management Commission\*). Pursuant to the Yangzhou BOT Agreement, the wholly owned subsidiary of the Company shall incorporate a project company with registered capital not less than RMB50,000,000 (approximately HK\$62,500,000) in Yangzhou City, Jiangsu Province, the PRC, which will be responsible for investing, building and operating a solid waste (kitchen waste) treatment project under BOT arrangement with a concessionary period of 28 years (including construction period).
- (c) At 30 June 2014, the Group is bounded by agreement to acquire the remaining equity interest at 都勻市科林環保有限公司 (Duyun Kelin Environmental Company Limited\*) and 襄安縣科林環保有限公司 (Weng'an Kelin Environmental Company Limited\*) from Beijing Kelin Haohua Environment Technology Development Company Limited with preliminary consideration of approximately HK\$3,403,000 (2013: HK\$3,490,000) and HK\$5,265,000 (2013:HK\$5,400,000) respectively. The date of transfer has not yet been finalised.

### 29. CONTINGENT LIABILITIES

At 30 June 2014, the Group provided guarantees of approximately of RMB10,782,400 (approximately HK\$13,478,000) (31 December 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.

### 30. RELATED PARTY TRANSACTIONS

During the period, in addition to the balances disclosed in Notes 19, 20 and 21, 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), 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.

\* For identification purpose only

## Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

### 30. RELATED PARTY TRANSACTIONS (continued)

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

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

Name of the related party	Nature of the transactions	Six months ended 30 June	
		2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
Entity with significant influence over the Group			
Beijing Capital (HK)	Interest expenses (Note)	6,511	4,430
	Rental expenses (Note)	620	480

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

As at 30 June 2014, Beijing Capital (HK) has granted the Group two three-year term facilities of RMB600,000,000 (approximately HK\$750,000,000) in total, in which approximately RMB442,530,000 (approximately HK\$553,163,000) has been utilised as at 30 June 2014. Approximately HK\$7,054,000 (2013:HK\$1,474,000) interest payable was due to Beijing Capital (HK) as at 30 June 2014.

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

During the six months ended 30 June 2014, the Group recognised revenue from the construction services and operating services of approximately HK\$108,744,000 (for the six months ended 30 June 2013: HK\$19,423,000) and HK\$5,061,000 (for the six months ended 30 June 2013: HK\$2,370,000) respectively under service concession arrangements with the local governments in PRC (see Note 13).

As at 30 June 2014 and 31 December 2013, the deposits paid for construction of infrastructure in service concession arrangements with the government related entity, Urban Construction Institute, is disclosed in Note 15.

As at 30 June 2014, trade receivable from government subsidiaries in relation to the licenses and franchises for the treatment of certain waster electric and electronic products are approximately HK\$171,189,000 (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 obtained by the Group 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.

## Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

### 30. RELATED PARTY TRANSACTIONS (continued)

(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	Six months ended 30 June	
		2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
Associate: SZ Yueneng	Interest income (Note)	501	727
Substantial shareholder with significance influence: Simple Success Investment Limited	Interest expenses (Note)	–	1,046

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

Details of the outstanding balances with SZ Yueneng are set out in Note 20.

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

	Six months ended 30 June	
	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
Short-term benefits	5,679	4,347
Post-employment benefits	–	–
	5,679	4,347

## Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

### 31. EVENTS AFTER THE END OF REPORTING PERIOD

#### Acquisition of Huizhou Guanghui

On 1 July 2014, the very substantial acquisition of 97.85% interest in Huizhou Guanghui has been completed after the change of industrial and commercial registration of Huizhou Guanghui. Huizhou Guanghui is engaged in the waste treatment and waste-to-energy generation project in the PRC. The consideration of acquisition includes a cash consideration of RMB20,000,000 (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). Details of the acquisition agreement are set out in the Company's announcement dated 19 August 2013. The initial accounting for the acquisition of Huizhou Guanghui has not yet been completed and the directors of the Company are still in the process of accessing the financial impact of the acquisition.

#### Acquisition of Zhejiang Zhuoshang Environmental Energy Company Limited ("Zhejiang Zhuoshang")

On 8 August 2014, the Group entered into an acquisition agreement with Mr. Lou Yunxian and Mr. Wang Tieliang, independent third parties, to acquire 70% equity interests in Zhejiang Zhuoshang, which is engaged in harmless treatment and reclamation of kitchen waste, for a cash consideration of RMB17,500,000 (approximately HK\$21,875,000). The acquisition is still in progress up to the issue of these condensed consolidated financial statements.

### 32. COMPARATIVE INFORMATION

As mentioned in Note 4, the effective interest income on amounts due from grantors for contract work has been reclassified to the Groups' revenue whereas, in previous years' financial statements, the amount was presented in the other income, gains and losses. The reclassification is to confirm with the industry norm for the classification of the revenue generated under BOT arrangements. Comparatives figures have been re-presented to achieve consistent presentation (see Note 4 and 5 for details).

# DISCLOSURE of Interests and Other Information

## INTERESTS AND SHORT POSITIONS OF THE DIRECTORS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2014, none of the Directors, chief executives of the Company or their associates had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("the SFO")) that was required to be recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange.

## INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2014, the following shareholders (other than the Directors or chief executive of the Company whose interests and short positions in the shares or underlying shares of the Company as disclosed above) had interests or short positions in the shares and underlying shares of the Company which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of shareholders	Capacity	Number of shares/underlying shares held	Approximate percentage of shareholdings
Beijing Capital (Hong Kong) Limited	Beneficial owner (Note 1)	2,587,883,804(L)	55.59%
Beijing Capital Company Limited	Interest of a controlled corporation (Note 1)	2,611,093,804(L)	56.08%
Beijing Capital Group Co., Ltd.	Interest of a controlled corporation (Note 1)	2,611,093,804(L)	56.08%
Simple Success Investments Limited	Beneficial owner (Note 2)	270,760,000(L)	5.82%
New World Strategic Investment Limited	Interest of a controlled corporation (Note 2)	270,760,000(L)	5.82%
New World Development Company Limited	Interest of a controlled corporation (Note 2)	270,760,000(L)	5.82%
Chow Tai Fook Enterprises Limited	Interest of a controlled corporation (Note 2)	270,760,000(L)	5.82%
Chow Tai Fook (Holding) Limited	Interest of a controlled corporation (Note 2)	270,760,000(L)	5.82%
Chow Tai Fook Capital Limited	Interest of a controlled corporation (Note 2)	270,760,000(L)	5.82%
Cheng Yu Tung Family (Holdings) Limited	Interest of a controlled corporation (Note 2)	270,760,000(L)	5.82%
Cheng Yu Tung Family (Holdings II) Limited	Interest of a controlled corporation (Note 2)	270,760,000(L)	5.82%
Favor Action Limited	Beneficial owner (Note 3)	290,000,000(L)	6.23%
Mr. Yang Zhi You	Interest of a controlled corporation (Note 3)	290,000,000(L)	6.23%

(L) denotes a long position

## Disclosure of Interests and Other Information (Continued)

### Notes:

1. These Shares represent 2,243,056,218 Shares, 344,827,586 underlying Shares which may be issuable upon conversion of all the outstanding amounts of the convertible bonds held by Beijing Capital (Hong Kong) Limited, which was a wholly-owned subsidiary of Beijing Capital Co., Ltd., and 23,210,000 Shares held by BC Water Investments Co., Ltd., an indirect wholly-owned subsidiary of Beijing Capital Co., Ltd.. Beijing Capital Co., Ltd. is in turn controlled by Beijing Capital Group Co., Ltd. As such, Beijing Capital Co., Ltd. and Beijing Capital Group Co., Ltd. were deemed to have interest in the said Shares and underlying Shares held by Beijing Capital (Hong Kong) Limited and BC Water Investments Co., Ltd. for the purposes of the SFO.
2. These Shares represent 270,760,000 Shares held by Simple Success Investments Limited, which was a wholly-owned subsidiary of New World Strategic Investment Limited, which was in turn wholly-owned by New World Development Company Limited. Cheng Yu Tung Family (Holdings) Limited and Cheng Yu Tung Family (Holdings II) Limited hold 49% and 46.7% interests in Chow Tai Fook Capital Limited, respectively. Chow Tai Fook Capital Limited in turn owns 74.1% interest in Chow Tai Fook (Holding) Limited which holds the entire interest in Chow Tai Fook Enterprises Limited, which in turn has more than one-third of the issued shares of New World Development Company Limited. As such, Cheng Yu Tung Family (Holdings II) Limited, Cheng Yu Tung Family (Holdings) Limited, Chow Tai Fook Capital Limited, Chow Tai Fook (Holding) Limited, Chow Tai Fook Enterprises Limited, New World Development Company Limited, New World Strategic Investment Limited were deemed to have interest in the said Shares held by Simple Success Investments Limited for the purposes of the SFO.
3. These Shares were held by Favor Action Limited, which was wholly owned by Mr. Yang Zhi You. As such, Mr. Yang Zhi You was deemed have interest in the Shares held by Favor Action Limited for the purpose of the SFO.

Save as aforesaid, the Company has not been notified by any person who had any interest or short position in the shares or underlying shares of the Company as at 30 June 2014 which are required to be notified to the Company pursuant to Part XV of the SFO or which are recorded in the register required to be kept by the Company under Section 336 of the SFO.

### DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its own code for dealing in securities of the Company by the Directors. The Company has made specific enquires of all its directors regarding any noncompliance with the Model Code, and all Directors confirmed that they had complied with the required standard set out in the Model Code throughout the six months ended 30 June 2014.

### CORPORATE GOVERNANCE PRACTICES

The Board believes that high standards of corporate governance are essential to the success of the Company and is committed to maintain a high level of corporate governance standards and practices.

The Company has complied with all the code provisions set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules during the period under review.

## Disclosure of Interests and Other Information (Continued)

### CHANGES IN INFORMATION OF DIRECTORS

Below are the changes of directors' information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the date of the Company's 2013 annual report:

<b>Name of Director</b>	<b>Details of Changes</b>
<b>Executive Directors:</b>	
Mr. Cao Guoxian	Appointed as a non-executive director of China Environmental Technology Holdings Limited on 25 June 2014
Mr. Xue Huixuan	Appointed as an executive director of China Fortune Investments (Holding) Limited on 6 June 2014
Mr. Shen Jianping	Entitled to a monthly fixed salary of HK\$30,000 for 13 months per year and a year-end bonus at the discretion of the board of directors of the Company with effect from 1 January 2014

#### **Independent Non-executive Directors:**

Mr. Pao Ping Wing	The monthly remuneration was revised to HK\$25,000 with effect from 1 January 2014
Mr. Cheng Kai Tai, Allen	The monthly remuneration was revised to HK\$25,000 with effect from 1 January 2014
Ms. Chan Yee Wah, Eva	The monthly remuneration was revised to HK\$25,000 with effect from 1 January 2014

### AUDIT COMMITTEE

The audit committee comprises three independent non-executive directors, namely, Ms. Chan Yee Wah, Eva, Mr. Pao Ping Wing and Mr. Cheng Kai Tai, Allen. Ms. Chan Yee Wah, Eva has been appointed as the chairman of the audit committee. The audit committee has reviewed the accounting principles and practices adopted by the Group and has also discussed the auditing, internal controls and financial reporting matters including the review of the unaudited interim results for the six months ended 30 June 2014 with the management.

In addition, the Group's external auditors performed an independent review of the interim financial information for the six months ended 30 June 2014 in accordance with Hong Kong Standard on Review Engagement 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. The auditors based on their review, concluded that nothing has come to their attention that causes them to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34 "Interim Financial Reporting".



Capital Environment Holdings Limited  
首創環境控股有限公司

