



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
2016

The background features several light green butterflies of various sizes scattered across the top half. Large, semi-transparent light green circles are placed throughout the page, some overlapping the text. At the bottom, there is a silhouette of a cityscape with buildings and trees on a hillside.

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Wang Hao (*Chairman*)
Mr. Cao Guoxian (*Chief Executive Officer*)
Mr. Shen Jianping
Mr. Liu Yongzheng

Independent Non-executive Directors

Mr. Pao Ping Wing
Mr. Cheng Kai Tai, Allen
Dr. Chan Yee Wah, Eva

COMMITTEES

Audit Committee

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

Nomination Committee

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

Remuneration Committee

Mr. Pao Ping Wing (*Chairman*)
Mr. Cheng Kai Tai, Allen
Mr. Wang Hao

COMPANY SECRETARY

Ms. Wong Bing Ni

AUTHORIZED REPRESENTATIVES

Mr. Wang Hao
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

STOCK CODE

03989

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND FINANCIAL REVIEW

Business Review and Prospects

The year 2016 is the beginning year of the “13th Five-Year Plan” of China. The incorporation of “green” into the new development concept by the state further indicates the country’s emphasis on environmental issues and provides the direction for future development at the same time. Premier Li Keqiang emphasized the importance of green and environmental protection once again in the Report on the Work of the Government in March and pointed out that green energy and environmental protection are the main contents of “new economy” development and that green development would become the main theme of future development. We believe that the stepping up of policy support and capital investments in environmental governance by the government, coupled with the increasing demand for environmental protection and alternative energy across the country, will provide the Group with enormous market opportunities and development potentials.

In view of the broad prospects and great potential in the environmental protection industry, driven by talents and technology and relying on the relevant favorable national policies, the Group will continue to leverage its comprehensive strength and explore new opportunities for business development by diversified means such as BOT, TOT, BOO as well as acquisition and merger. Benefiting from the support of and the broad development prospects of environmental protection industry brought by national policies, combined with the strong backing from its parent company, Beijing Capital Group and the comprehensive strength and resources of the Group, the management are confident of the future development of the Group.

During the period under review, the Group’s projects continued to progress steadily. Based on the favorable national policies and growing market demand, the Group has made remarkable achievements in operating results, market expansion, internal management, fund raising and the extension of its business chain. Leveraging on its leading technology in environmental protection and alternative energy as well as its 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.

With the increase of business lines, the Group set up Beijing-Tianjin-Hebei investment center and hazardous waste treatment business division in the first half of the year 2016, so as to strengthen the synergy and efficiency of various projects, and to promote intra-regional project investment. New investment modes have been explored and the new framework is getting further optimized on the basis of strengthening the regional investment model.

The Group actively explored business opportunities in all areas of environmental protection and alternative energy industry to keep up with its rapid development. As at 30 June 2016, the Group secured a total of 27 environmental protection and alternative energy projects (including 14 waster-to-energy projects, 3 waste landfill projects, 3 anaerobic digestion technology treatment projects, 2 waste collection, storage and transportation projects, 2 dismantling waste electronic appliance projects and 3 biomass resource electricity generation projects) with a total investment of approximately RMB9.1 billion. The facilities are designed with an aggregate annual household waste processing capacity of approximately 7.53 million tonnes and annual electrical and electronic equipment dismantling volume of approximately 3.20 million units.

On 16 March 2015, the Group proposed to dispose the 40% equity interest in Beijing Dongcun Project Company (“Proposed Disposal”). The Proposed Disposal was made by way of public tender, auction and listing procedures conducted in strict compliance with relevant PRC laws and regulations in relation to transfer of state-owned assets and has obtained approvals from State-owned Assets Supervision and Administration Commission of People’s Government of Beijing Municipality and other competent authorities. As at 30 June 2016, the Group has received the consideration for the equity transfer and is going through the related formalities such as changes in industrial and commercial registration. The reserve price for the 40% equity interest in Beijing Dongcun Project Company was determined with reference to (among others) the valuation report of Beijing Dongcun Project Company prepared by an independent and qualified PRC valuer.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The household waste incineration power plant project in Quanling, Nanchang (“Nanchang Project”), which is wholly-owned by the Group, was put into commercial trial operation after obtaining approval from the government on 4 May 2015, marking the commencement of commercial trial operations of the first household waste incineration power generation project in Jiangxi Province. Currently, Nanchang Project operates stably and the completion acceptance of environmental protection is in public notification, which ended in August 2016. The project will be transferred into commercial operation by the end of October 2016.

Being one of the representative projects that demonstrate a high level of competence in the Group, Nanchang Project achieves the whole-chain treatment system for the first time, integrating the waste receiving and storage system, waste incineration system, residual heat boiler system, flue gas purification system, leachate treatment system and ash residue removal system to generate a maximum amount of energy while reducing waste to the greatest degree. The heavily polluted water produced by the waste-to energy 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, to put the concept of recycling into practice, the resulting waste residual will be reused to produce products such as ceramic tiles. Nanchang Project has been approved as an environmental demonstration base by the National Development and Reform Commission.

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

The changes of industrial and commercial registration of Huizhou project in Guangdong have been duly completed on 1 July 2014 and the site selection of the new waste treatment plant is in progress. Pursuant to the plan, the new waste treatment plant is expected to treat 1,600 tonnes of waste daily upon completion.

The kitchen waste treatment project located in Yangzhou, Jiangsu was tendered by the Group on 6 November 2013. The project had completed site construction and was put into trial operation by the end of 2015.

In 2014, the Group acquired the solid waste landfill project in Huludao, Liaoning province, which requires a total investment of RMB93.4 million and has a waste treatment capacity of 424 tonnes per day and a minimum guaranteed treatment capacity of 380 tonnes per day. The project has completed site construction and is under commissioning.

The project of village wastes collection, storage and transportation in Linyi County is the first waste collection and transportation project of the Group. The unit price charged for collection and transportation service is RMB160 per tonne and the minimum guaranteed volume of waste is 260 tonnes per day. The project requires a total investment of RMB17 million and has been put into trial operation.

Jiangxi Gaoan Waste Incineration Project, Guizhou Duyun Waste Incineration Project and Hangzhou Xiaoshan Kitchen Waste Project have commenced their construction in the first half of 2016.

Shenzhen Pinghu project, Huaian project in Jiangsu Province, Ma An Shan project in Anhui Province and Duyun and Weng’an projects in Guizhou Province have officially commenced commercial operation.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Looking ahead, the Company is confident that it will seize all the opportunities for future development thanks to vigorous government support for the industry and continuous support from its substantial shareholders. Leveraging on the strong growth momentum of the waste treatment industry and the competitive edges of the Group, the management believes that the existing projects will make contribution to the Group once most of them are put into operation, and is therefore confident of achieving sustained growth in the medium to long term.

Riding on its extensive experience, the Group will make thorough preparation for every project under development and push forward the construction of new projects to boost revenue growth. With the completion and operation of the projects acquired in previous years and the smooth progress of the projects under construction, there will bring new profit drivers to the Group.

FINANCIAL REVIEW

Overview

The net loss attributable to the owners of the Company amounted to approximately HK\$26,000,000 for the period under review, as compared to approximately HK\$20,700,000 for the same period last year. The increase in the loss was mainly attributable to the professional fees in the aggregate amount of approximately HK\$17,500,000 resulted from the acquisition of the 51% shares of BCG NZ Investment Holding Limited (“the Acquisition”). Excluding such impact, the actual net loss was HK\$8,500,000.

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\$361,500,000, representing a decrease of approximately 19.1% as compared to that of the same period last year.

For the period under review, the Group’s gross profit margin reached approximately 21.9%, as compared to approximately 19.4% for the same period last year.

Administrative Expenses

The Group’s administrative expenses increased by approximately 20.7% to approximately HK\$82,900,000 during the period under review.

The increase of administrative expenses was mainly attributable to the increase in professional fees resulted from the Acquisition. During the period under review, the increase in professional fee resulted from the Acquisition was approximately HK\$17,500,000.

Finance Costs

Finance costs decreased by approximately 40.4% to approximately HK\$25,500,000, as compared to the figure for the same period last year. The decrease was mainly attributable to the repayment of certain borrowings and the decrease in the interest on borrowings.

Financial Position

As at 30 June 2016, the Group had total assets amounting to approximately HK\$4,258,500,000, with approximately HK\$2,492,700,000 of net assets attributable to the owners of the Company. The gearing ratio, which is calculated on the basis of total liabilities over total assets, increased from approximately 0.33 as at 31 December 2015 to 0.36 as at 30 June 2016. The current ratio, which is calculated on the basis of current assets over current liabilities, decreased from approximately 2.49 as at 31 December 2015 to approximately 2.14 as at 30 June 2016.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

Financial Resources

The Group finances its operations primarily with internally generated cash flow and loan facilities from shareholder and banks. As at 30 June 2016, the Group had cash and bank balances of approximately HK\$924,300,000, representing a decrease of approximately HK\$277,100,000 as compared to approximately HK\$1,201,400,000 as at the end of 2015. The decrease was mainly due to the payment in respect of the infrastructure work under service concession arrangements, expenditure on daily operation and repayment of debts during the period under review. Currently, most of the Group's cash is denominated in HK dollars and RMB.

Borrowings

As at 30 June 2016, the Group had outstanding borrowings of approximately HK\$1,010,700,000, representing an increase of approximately HK\$72,500,000 as compared to approximately HK\$938,200,000 as at the end of 2015. The borrowings comprised secured loans of approximately HK\$711,100,000 and unsecured loans of approximately HK\$299,600,000. The borrowings are denominated in RMB. Approximately 41.4% and 58.6% of the borrowings are at fixed rate and variable rate respectively.

Foreign Exchange Exposure

The Group's sales, purchases and operating expenses are mostly 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, neither formal hedging policies nor instruments have been adopted or applied by the Group for foreign currency hedging purposes.

The management will continue to monitor foreign exchange exposure flexibly and engage in timely and appropriate hedging activities when needed.

Charges on Assets

As at 30 June 2016, the revenue under the Group's service concession arrangements and the prepaid lease payments of HK\$40,800,000 were pledged to secure banking facilities of the Group.

Capital Commitments

As at 30 June 2016, the Group had capital commitments of approximately HK\$250,600,000 in respect of the construction work under service concession arrangements, which were contracted but not provided for in the consolidated financial statements.

Contingent Liabilities

As at 30 June 2016, the Group provided guarantees of approximately HK\$22,800,000 in favour of two banks in respect of banking facilities granted to an associate.

Employment Information

As at 30 June 2016, the Group had about 1,157 employees in total, stationed mainly in the PRC and Hong Kong. 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.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Overview of the New Zealand Project

On 26 November 2015, the Company announced to acquire 51% shares of BCG NZ Investment Holding Limited (“BCG NZ Group”) at the final purchasing consideration of US\$234.4 million. BCG NZ Group has over a century of continuing operation and is the largest waste management service provider in New Zealand with an over 30% market share and has established a national network of vertically integrated local waste systems. BCG NZ Group provides comprehensive waste management services, ranging from collection, recycling, disposal of waste to hazardous and industrial waste treatment and serves more than 200,000 customers in New Zealand.

The Acquisition is not yet completed as at the date of this report and is expected to be completed in early September of 2016.

The acquisition allows the Group to expand its geographical reach to New Zealand, which enhanced the market position of the Group, so as to promote the brand into overseas markets. By penetrating into the whole business line of the Group, the advantages of New Zealand Project will promote the Group to form a unique business model in solid waste industry, and finally generate synergistic effect for the Group and strengthen its core market competitiveness. In terms of overall business model, market expansion, collection and storage & transportation system, technological process, treatment technology, operations management and customer service, the Group can draw on the experience of New Zealand Project into the whole business line of the Group so as to achieve complementary advantages and receive increment of value. Finally, the Acquisition will help the Group to increase its shares in the domestic market and consolidate the leading position of the Group in the environmental industry.

Looking forward, the Group will further consolidate its leading position and international reputation in the environmental industry, as well as enhance its comprehensive capability in the domestic solid waste treatment industry, so as to lay a more solid foundation for the Group to realize its target of becoming China’s leading supplier in providing integrated waste treatment solution and environmental protection infrastructure services.

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 2016 (six months ended 30 June 2015: nil).

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte.

德勤

**TO THE BOARD OF DIRECTORS OF
CAPITAL ENVIRONMENT 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 9 to 32, which comprise the condensed consolidated statement of financial position as of 30 June 2016 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 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
30 August 2016

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2016

	NOTES	Six months ended 30 June	
		2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
Revenue	4	361,499	446,854
Cost of sales		(282,461)	(360,150)
Gross profit		79,038	86,704
Other income, gains and losses	5	8,985	1,517
Administrative expenses		(82,864)	(68,626)
Gain on fair value change of warrants		–	79
Share of results of associates	13	2,020	5,277
Finance costs	6	(25,516)	(42,798)
Loss before tax		(18,337)	(17,847)
Income tax (expense) credit	7	(6,772)	1,236
Loss for the period	8	(25,109)	(16,611)
Other comprehensive (expense) income:			
Items that will not be reclassified to profit or loss:			
Exchange differences on translation:			
Exchange difference arising during the period		(48,296)	659
Exchange difference arising from associates during the period		(2,288)	13
Item that may be subsequently reclassified to profit or loss:			
Fair value loss on available-for-sale investments		(33,494)	–
Other comprehensive (expense) income for the period		(84,078)	672
Total comprehensive expense for the period		(109,187)	(15,939)
(Loss) profit for the period attributable to:			
Owners of the Company		(25,967)	(20,724)
Non-controlling interests		858	4,113
		(25,109)	(16,611)
Total comprehensive (expense) income for the period attributable to:			
Owners of the Company		(106,320)	(20,645)
Non-controlling interests		(2,867)	4,706
		(109,187)	(15,939)
LOSS PER SHARE			
Basic	10	HK(0.27) cents	HK(0.36) cents
Diluted		HK(0.27) cents	HK(0.36) cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2016

	NOTES	30 June 2016 HK\$'000 (unaudited)	31 December 2015 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment		136,764	121,472
Intangible assets	11	477,934	411,151
Goodwill		21,035	21,035
Prepaid lease payments		84,994	87,637
Amounts due from grantors for contract work	12	1,317,023	1,155,168
Available-for-sale investments		71,359	103,207
Interests in associates	13	116,152	114,372
Deposits paid for construction of infrastructure in service concession arrangements	14	68,008	63,043
Deposits, prepayments and other receivables	15(b)	56,802	65,244
Deferred tax assets		10,365	11,475
Amount due from an associate	17	7,254	–
		2,367,690	2,153,804
Current assets			
Inventories	16	18,659	31,137
Trade receivables	15(a)	400,659	317,560
Deposits, prepayments and other receivables	15(b)	120,306	82,262
Amounts due from grantors for contract work	12	74,859	52,742
Prepaid lease payments		1,626	1,997
Amount due from an associate	17	42,082	42,919
Bank balances and cash		924,319	1,201,352
		1,582,510	1,729,969
Assets classified as held for sale	18	308,310	308,037
		1,890,820	2,038,006
Current liabilities			
Trade payables	19(a)	82,882	25,934
Other payables and accruals	19(b)	171,559	156,613
Provisions		936	955
Deferred income		1,638	1,671
Taxation payable		40,702	41,304
Borrowings	20	450,607	458,723
		748,324	685,200
Liabilities associated with assets classified as held for sale	18	135,101	132,964
		883,425	818,164
Net current assets		1,007,395	1,219,842
Total assets less current liabilities		3,375,085	3,373,646

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 30 June 2016

	NOTES	30 June 2016 HK\$'000 (unaudited)	31 December 2015 HK\$'000 (audited)
Non-current liabilities			
Deferred income		44,111	45,585
Borrowings	20	560,052	479,452
Deferred tax liabilities		26,602	21,664
		630,765	546,701
		2,744,320	2,826,945
Capital and reserves			
Share capital	22	975,315	975,315
Reserves		1,517,371	1,623,691
Equity attributable to owners of the Company		2,492,686	2,599,006
Non-controlling interests		251,634	227,939
		2,744,320	2,826,945

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

	Attributable to owners of the Company									
	Share capital	Share premium	Translation reserve	Share option reserve	Investment revaluation reserve	Convertible bonds reserve	Accumulated losses	Total	Non-controlling interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (note 23)	HK\$'000	HK\$'000 (note 21)	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2015 (audited)	473,150	2,004,939	62,009	98	-	51,981	(2,103,288)	488,889	203,651	692,540
(Loss) profit for the period	-	-	-	-	-	-	(20,724)	(20,724)	4,113	(16,611)
Exchange differences on translation	-	-	66	-	-	-	-	66	593	659
Exchange differences arising from an associate on translation	-	-	13	-	-	-	-	13	-	13
Total comprehensive income (expense) for the period	-	-	79	-	-	-	(20,724)	(20,645)	4,706	(15,939)
At 30 June 2015 (unaudited)	473,150	2,004,939	62,088	98	-	51,981	(2,124,012)	468,244	208,357	676,601
At 1 January 2016 (audited)	975,315	3,740,485	(43,044)	-	5,922	-	(2,079,672)	2,599,006	227,939	2,826,945
(Loss) profit for the period	-	-	-	-	-	-	(25,967)	(25,967)	858	(25,109)
Exchange differences on translation	-	-	(44,571)	-	-	-	-	(44,571)	(3,725)	(48,296)
Exchange differences arising from associates on translation	-	-	(2,288)	-	-	-	-	(2,288)	-	(2,288)
Fair value loss on available-for-sale investments	-	-	-	-	(33,494)	-	-	(33,494)	-	(33,494)
Realisation of fair value change of available-for-sale investment upon disposal	-	-	-	-	273	-	(273)	-	-	-
Total comprehensive expense for the period	-	-	(46,859)	-	(33,221)	-	(26,240)	(106,320)	(2,867)	(109,187)
Capital contribution from non-controlling interests of subsidiaries	-	-	-	-	-	-	-	-	4,680	4,680
Acquisition of subsidiaries (note 27)	-	-	-	-	-	-	-	-	22,478	22,478
Capital withdrawal from a non-controlling interest and deemed acquisition of interest in a subsidiary	-	-	-	-	-	-	-	-	(596)	(596)
At 30 June 2016 (unaudited)	975,315	3,740,485	(89,903)	-	(27,299)	-	(2,105,912)	2,492,686	251,634	2,744,320

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016

	NOTES	Six months ended 30 June	
		2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
NET CASH USED IN OPERATING ACTIVITIES		(274,202)	(373,359)
NET CASH USED IN INVESTING ACTIVITIES			
Proceeds from disposal of property, plant and equipment		–	263
Purchase of property, plant and equipment		(24,983)	(14,894)
Purchase of intangible assets	11	(46,611)	–
Deposits paid to contractors for construction of infrastructure in service concession arrangements		(3,178)	(25,363)
Deposits paid to potential acquisitions		(18,721)	–
Sale proceeds received in advance for the disposal of a subsidiary	18	43,852	–
Repayment of loan from a non-controlling interest		12,530	–
Advance to an associate	17	(7,254)	–
Acquisition of subsidiaries		(8,653)	–
Acquisition of an associate		(282)	–
Purchases of available-for-sale investments		(3,399)	–
Proceeds on disposal of available-for-sale investments		1,892	–
Withdrawal of pledged bank deposits		–	9,709
Interests received		7,537	634
		(47,270)	(29,651)
NET CASH FROM FINANCING ACTIVITIES			
Repayment of borrowings	20	(421,160)	(185,200)
Interest paid		(25,516)	(30,111)
New borrowings raised	20	506,233	472,992
Proceeds from rights issue		–	6,104,319
Capital contribution from non-controlling interests of a subsidiary		4,680	–
Acquisition of non-controlling interests of a subsidiary		(596)	–
		63,641	6,362,000
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(257,831)	5,958,990
CASH AND CASH EQUIVALENTS AT 1 JANUARY		1,207,642	468,231
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		(20,873)	6,207
CASH AND CASH EQUIVALENTS AT 30 JUNE, represented by bank balances and cash		928,938	6,433,428
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		924,319	6,433,428
Cash and cash equivalent classified as asset held for sale	18	4,619	–
		928,938	6,433,428

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

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 (the “Listing Rules”).

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 2016 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2015.

Application of amendments to Hong Kong Financial Reporting Standards (“HKFRSs”)

In the current interim period, the Group has applied, for the first time, the following amendments to HKFRSs issued by the HKICPA that are relevant for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKFRSs Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Annual Improvements to HKFRSs 2012 – 2014 Cycle Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11 Amendments to HKAS 1 Amendments to HKAS 16 and HKAS 38	Accounting for Acquisitions of Interests in Joint Operations Disclosure Initiative Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41 Amendments to HKAS 27	Agriculture: Bearer Plants Equity Method in Separate Financial Statements

The directors of the Company consider that the application of these amendments has had no material effect on the amounts recognised in the Group’s condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2016

4. REVENUE

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

	Six months ended 30 June	
	2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
Provision of construction services under service concession arrangements	117,893	146,821
Provision of operation services under service concession arrangements	12,643	23,183
Effective interest income on amounts due from grantors for contract work	50,529	43,124
Provision of dismantling services	171,044	203,344
Provision of kitchen waste handling services	1,612	–
Electricity tariff	6,588	26,636
Consultancy fee income	1,190	3,746
	361,499	446,854

5. OTHER INCOME, GAINS AND LOSSES

	Six months ended 30 June	
	2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
Bank interest income	6,281	635
Interest income on amount due from an associate	1,256	738
Total interest income	7,537	1,373
Loss on disposal of available-for-sale investments	(273)	–
Loss on disposal of property, plant and equipment	–	(22)
Refund of value-added-tax ("VAT")	1,510	–
Others	211	166
	8,985	1,517

6. FINANCE COSTS

	Six months ended 30 June	
	2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
Interests on:		
Borrowings wholly repayable within five years	24,446	32,655
Convertible bonds (note 21)	–	6,750
Bank and other charges	1,070	3,393
	25,516	42,798

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2016

7. INCOME TAX EXPENSE (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% for both periods.

	Six months ended 30 June	
	2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
Current income tax:		
PRC Enterprise Income Tax	351	3,009
Overprovision in prior year	–	(930)
	351	2,079
Deferred tax:		
Current period (Note)	6,421	(3,315)
	6,772	(1,236)

Note: During the six months ended 30 June 2016, deferred tax expense has been recognised for the taxable temporary differences associated with provision of construction services and operation services under services concession arrangements.

8. LOSS FOR THE PERIOD

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

	Six months ended 30 June	
	2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
Directors' and chief executive's emoluments	450	2,790
Staff's salaries and other benefits	27,931	27,550
Retirement benefit scheme contribution	4,182	3,179
	32,113	30,729
Auditor's remuneration	719	792
Depreciation of property, plant and equipment	6,966	7,139
Amortisation of prepaid lease payments	1,116	859
Rental expenses	5,066	5,960
Amortisation of intangible assets (Note)	7,761	14,162

Note: During the six months ended 30 June 2016, approximately HK\$7,761,000 and HK\$nil (for the six months ended 30 June 2015: approximately HK\$13,887,000 and approximately HK\$275,000) 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 2016

9. DIVIDEND

No dividends were paid, declared or proposed during interim period. 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	
	2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
Loss for the purposes of basic and diluted loss per share for the period attributable to owners of the Company	(25,967)	(20,724)
	2016 '000	2015 '000
Number of shares Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	9,753,158	5,727,486

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

11. INTANGIBLE ASSETS

During the current interim period, addition in intangible asset arising from a service concession arrangement of approximately HK\$46,611,000 represents the conditional right for 揚州首創環保能源有限公司 (Yangzhou Capital Environmental Energy Investment Limited*), to operate under a service concession arrangement engaged in the treatment of kitchen waste. The intangible asset arising from the service concession arrangement is amortised over the period which commences from the date when the kitchen waste plant is available for use to end of the service concession period, using a straight-line method.

* For identification purpose only

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2016

12. 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 build-operate-transfer (“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 Group recognised revenue from construction services of approximately HK\$117,893,000 (for the six months ended 30 June 2015: HK\$146,821,000) by reference to the stage of completion of the construction work and revenue from operation services of approximately HK\$12,643,000 (for the six months ended 30 June 2015: HK\$23,183,000).

The Group also recognised the effective interest income on amounts due from grantors for contract work of approximately HK\$50,529,000 (for the six months ended 30 June 2015: HK\$43,124,000) as revenue. The effective interest rates ranged from 3.6% to 13.6% during the six months ended 30 June 2016 (during the six months ended 30 June 2015: ranged from 3.6% to 13.6%).

During the current interim period, the Group recognised on-grid electricity tariff of approximately HK\$6,588,000 (for the six months ended 30 June 2015: HK\$26,636,000) from its waste treatment and waste-to-energy plants.

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 2016, a provision of approximately HK\$936,000 (as at 31 December 2015: HK\$955,000) has been recognised in respect of the contractual obligations to maintain or restore these waste treatment and waste-to-energy plants to specified conditions.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2016

13. INTERESTS IN ASSOCIATES

Particulars of the Group's principal associates as at 30 June 2016 and 31 December 2015 are as follows:

Name	Form of business structure	Place of incorporation/operation	Issued and fully paid share capital	Proportion of nominal value of issued share capital held by the Group %	Principal activities
深圳粵能環保再生能源有限公司 Shenzhen Yueneng Environmental Recycling Energy Limited* ("SZ Yueneng")	Incorporated	PRC/PRC	RMB75,000,000	46% (2015: 46%)	Waste treatment and waste-to-energy plant in Shenzhen, the PRC on a BOT basis
常州鍋爐有限公司 Changzhou Boiler Company Limited* ("Changzhou Boiler")	Incorporated	PRC/PRC	RMB9,232,686	24% (2015: 24%)	Trading and manufacturing of boiler products
北京藍潔利德環境科技有限公司 Beijing Lanjie Lide Environment Holding Limited* ("Beijing Lanjie")	Incorporated	PRC/PRC	RMB1,760,000	29% (2015: N/A)	Provision of waste transportation service

The share of results of the three associates (2015: one associate) of approximately HK\$2,020,000 is recognised for the six months ended 30 June 2016 (for the six months ended 30 June 2015: HK\$5,277,000).

14. 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 an 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\$46,860,000 (as at 31 December 2015: approximately HK\$47,792,000), net of impairment loss. The Group has submitted few disputes with Urban Construction Institute to the 南昌仲裁委員會 (Nanchang Arbitration Committee*) in prior years.

During the year ended 31 December 2015, the Group has lodged an appeal (the "Appeal") to the Nanchang Arbitration Committee and requested a cash refund for all the deposits of approximately HK\$151,520,000 (approximately RMB129,500,000) paid to Urban Construction Institute and the relevant interest loss of approximately HK\$50,458,000 (approximately RMB43,125,000).

On 15 January 2016, the Appeal has been released unconditionally upon another appeal was made by Urban Construction Institute to 江西省高級人民法院 (High Court of Jiangxi Province*) (the "High Court"), requesting the Group to repay compensation for the expenses it had incurred. On 7 March 2016, a court order was received from the High Court to attend a hearing and requested the Group and Urban Construction Institute to provide supporting documents for the appeal.

* For identification purposes only

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2016

14. DEPOSITS PAID FOR CONSTRUCTION OF INFRASTRUCTURE IN SERVICE CONCESSION ARRANGEMENTS (Continued)

As at 30 June 2016, the final resolution from the High Court is not yet released and the amount of deposits refundable from Urban Construction Institute is yet to be finalised.

The Group has not made further impairment on such deposits during the six months ended 30 June 2016, after taking into account the legal opinion provided by an independent lawyer.

15. 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 analysis of trade receivables by age, presented based on the invoice date, net of allowance for doubtful debts.

	30 June 2016 HK\$'000 (unaudited)	31 December 2015 HK\$'000 (audited)
0 – 90 days	65,606	77,289
91 – 180 days	46,065	87,602
181 – 360 days	149,232	135,649
Over 360 days	139,756	17,020
	400,659	317,560

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 2016, included in the Group's trade receivable balance is government dismantling tariffs provided by the PRC government for treatment of certain waste electric and electronic products with an aggregate carrying amount of approximately HK\$282,192,000 (as at 31 December 2015: approximately HK\$149,288,000), 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 customers are government authorities.

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of approximately HK\$15,540,000 (as at 31 December 2015: approximately HK\$8,189,000) that are considered irrecoverable by the management after consideration of the credit quality of those individual customers based on the amounts subsequently settled after period end, the ongoing relationship with the Group and the aging of these receivables. The Group does not hold any collateral over these balances.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2016

15. TRADE RECEIVABLES/DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES *(Continued)*

(b) Deposits, prepayments and other receivables

	30 June 2016 HK\$'000 (unaudited)	31 December 2015 HK\$'000 (audited)
Advances to suppliers	76,700	38,992
Deposits for acquisitions (Note a)	24,804	26,492
VAT recoverable	25,423	18,433
Loan receivable (Note b)	36,678	37,408
Loans to a non-controlling interest (Note c)	–	12,530
Others	13,503	13,651
	177,108	147,506
Analysed for reporting purpose as:		
Current asset	120,306	82,262
Non-current asset	56,802	65,244
	177,108	147,506

Notes:

(a) Deposits for acquisitions

As at 31 December 2015, deposits of HK\$26,492,000 (RMB22,200,000) were paid for potential acquisitions of equity interests in three companies with BOT projects. During the six months ended 30 June 2016, amounting to HK\$19,891,000 (RMB17,000,000) are utilised upon completion of the acquisitions (note 27). The remaining deposit is outstanding as at 30 June 2016.

During the period ended 30 June 2016, deposits of approximately HK\$18,721,000 (RMB16,000,000) were paid to two potential acquisitions of equity interests in two companies with BOT projects. The amounts are classified as non-current assets.

(b) Loan receivable

On 1 December 2015, a wholly owned subsidiary of the Company acquired 70% equity interest in 浙江卓尚環保能源有限公司 (Zhejiang Zhuoshang Environmental Energy Company Limited*) ("Zhejiang Zhuoshang"), from independent third parties and approximately HK\$36,678,000 was receivable from a related party of a former shareholder of Zhejiang Zhuoshang. The amount was expected to be repaid in five years and the first instalment of approximately HK\$4,680,000 will become due in December 2016. The loan carries interest rate at PRC Benchmark Lending Rate per annum.

(c) Loan to a non-controlling interest

Amount represents a loan to the non-controlling shareholders of Zhejiang Zhuoshang. The amount is unsecured and interest free and has been repaid during the six months ended 30 June 2016.

* For identification purposes only

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2016

16. INVENTORIES

	30 June 2016 HK\$'000 (unaudited)	31 December 2015 HK\$'000 (audited)
Raw materials	10,138	2,792
Finished goods	8,521	28,345
	18,659	31,137

17. AMOUNT DUE FROM ASSOCIATES

During the year ended 31 December 2015, SZ Yueneng entered into two agreements with the Group for (i) an advance of approximately HK\$13,155,000 (RMB11,100,000) and (ii) loans of approximately HK\$29,764,000 (RMB24,867,000), which are transferred from the dividends distributed by SZ Yueneng to the Group. The advance and the loans would be repayable in 2016 and carry interest rate at PRC Benchmark Lending Rate plus 20% per annum.

During the period ended 30 June 2016, two supplementary agreements were entered to extend the advance of approximately HK\$12,987,000 (RMB11,100,000) and the loan of approximately HK\$20,675,000 (RMB17,670,000) for 12 months to March and June 2017 respectively. The loan of approximately HK\$8,420,000 (RMB7,197,000) remains outstanding as at 30 June 2016. The advance and the loans carry interest rate at PRC Benchmark Lending Rate plus 20% per annum.

During the period ended 30 June 2016, Beijing Lanjie entered into a loan agreement with the Group regarding an advance to Beijing Lanjie of approximately HK\$7,254,000 (RMB6,200,000) which are repayable in July 2018. The advance is unsecured and carried a fixed interest rate of 9% per annum.

18. ASSETS CLASSIFIED AS HELD FOR SALE

On 12 November 2015, the Group has entered into a sales and purchase agreement regarding the disposal of 40% equity interest of Beijing Yiqing Biomax Green Energy Park Co., Ltd. ("BJ Yiqing Biomax") (the "Disposal"), one of the subsidiaries of the Group, which is engaged in a waste treatment project in Beijing Dongcun at the total consideration of approximately HK\$43,852,000 (approximately RMB37,479,000) to 北京環境衛生工程集團有限公司 (Beijing Environment Sanitation Engineering Group Company Limited*) ("BJ Environment Sanitation") which is also the 40% equity interest shareholder of BJ Yiqing Biomax.

During the year ended 31 December 2015, the Group and the BJ Environment Sanitation obtained approval from the local authorities for the Disposal. On 29 January 2016, the sale proceeds for the Disposal was received by the Group and recognised as other payable as at 30 June 2016. The Disposal is expected to be completed in the second half of 2016 and the 40% of equity interest would be transferred to the BJ Environment Sanitation when the Group and the BJ Environment Sanitation complete share transfer registration.

The net proceeds are expected to be equivalent to approximately the net carrying amount of the relevant assets and liabilities and accordingly, no impairment loss has been recognised.

* For identification purposes only

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2016

18. ASSETS CLASSIFIED AS HELD FOR SALE (Continued)

Major classes of assets and liabilities of BJ Yiqing Biomax as at the end of the current interim period are as follows:

	<i>HK\$'000</i>
Property, plant and equipment	251
Prepaid lease payments	2,013
Amount due from grantor for contract work	289,674
Deposit paid for construction of infrastructure in service concession arrangements	1,639
Deferred tax assets	2,425
Deposits, prepayments and other receivables	7,689
Bank balances and cash	4,619
	<hr/>
Assets classified as held for sale	308,310
	<hr/> <hr/>
Trade payables	7,069
Other payables and accruals	48,838
Bank borrowings	79,194
	<hr/>
Liabilities associated with asset classified as held for sale	135,101
	<hr/> <hr/>

19. TRADE PAYABLES/OTHER PAYABLES AND ACCRUALS

(a) Trade payables

The following is an analysis of trade payables by age, presented based on the invoice date.

	30 June 2016 HK\$'000 (unaudited)	31 December 2015 HK\$'000 (audited)
0 – 90 days	66,690	15,360
91 – 180 days	1,553	611
181 – 360 days	4,656	–
Over 360 days	9,983	9,963
	<hr/> 82,882 <hr/>	<hr/> 25,934 <hr/>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2016

19. TRADE PAYABLES/OTHER PAYABLES AND ACCRUALS (Continued)

(b) Other payables and accruals

	30 June 2016 HK\$'000 (unaudited)	31 December 2015 HK\$'000 (audited)
Amount due to related parties of vendors of 惠州廣惠能源有限公司 (Huizhou Guanghui Energy Company Limited*) ("Huizhou Guanghui") (Note)	1,325	1,506
Consideration payable for acquisition of Beijing Lanjie	1,755	–
Consideration payable for acquisition of Zhejiang Zhuoshang	–	14,916
Consideration payable for acquisition of 高安意高再生資源熱力發電有限公司 (Gaoan Eacon Renewable Resources for Thermal Power Generation Co. Ltd.*) ("Gaoan Eacon")	1,404	–
Accrued payroll	832	2,647
Accrued professional fee	10,910	292
Accrued purchases	69,376	92,879
Sale proceeds received in advance for the disposal of BJ Yiqing Biomax (note 18)	43,852	–
Receipts in advance	1,079	1,908
Business tax payable	1,463	1,492
VAT payable	16,029	13,615
Others	23,534	27,358
	171,559	156,613

Note: Amount represented the payable to the related parties of Richway Investment Management Limited and Huizhou Energy(s) Pte. Limited, vendors of Huizhou Guanghui.

* For identification purposes only

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2016

20. BORROWINGS

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

- (i) In January 2016, the Group entered into a bank loan agreement with the China Construction Bank for a loan of approximately HK\$95,067,000, repayable in January 2026. The balance is secured by corporate guarantees from two of the Group's subsidiaries and the BOT contract that gives right to the Group to receive waste treatment fee in Yangzhou and carries an interest rate at PRC Benchmark Lending Rate per annum.
- (ii) In March 2016, the Group entered into a bank loan agreement with the China Citic Bank for a loan of approximately HK\$59,417,000, repayable in November 2016. The balance is secured by a corporate guarantee from a Group's subsidiary and carries a fixed rate at 4.35% per annum.
- (iii) In March 2016, the Bank of Jiangsu granted a bank facility to the Group for approximately HK\$273,318,000, repayable in May 2017. The whole facility has been drawn up to the period end date. The balance is unsecured and carries a fixed rate at 4.22% per annum.
- (iv) In June 2016, the Group entered into an agreement with a former shareholder of a subsidiary for an advance of approximately HK\$30,897,000, repayable in June 2031. The balance is unsecured and carries a fixed rate at 1.20% per annum.
- (v) During the period ended 30 June 2016, the Group has drawn down in aggregate of approximately HK\$47,534,000 from Huaian Rural Commercial Bank. The balance was secured by the prepaid lease payment of the Group located in Jiangsu Huaian. The balance carries an interest rate at PRC Benchmark Lending Rate per annum and the amount will be matured after one year from the date of drawn down.

During the current interim period, the Group repaid borrowings of approximately HK\$421,160,000 (during the six months ended 30 June 2015: HK\$185,200,000).

21. CONVERTIBLE BONDS

On 10 August 2015, Beijing Capital (HK) Limited ("Beijing Capital (HK)") has converted all the outstanding convertible bonds into ordinary shares of the Company. At 30 June 2016 and 31 December 2015, no convertible bonds remained outstanding.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2016

22. SHARE CAPITAL

	Number of ordinary shares	Amount HK\$'000
Ordinary shares of HK\$0.1 each		
Authorised:		
At 1 January 2015	6,000,000,000	600,000
Increase on 27 May 2015	9,000,000,000	900,000
	<u>15,000,000,000</u>	<u>1,500,000</u>
At 30 June 2015, 1 January 2016 and 30 June 2016	<u>15,000,000,000</u>	<u>1,500,000</u>
Issued and fully paid		
At 1 January 2015 and 30 June 2015	4,731,504,664	473,150
Issue of shares under rights issue (Note a)	4,731,504,664	473,150
Issue of shares under redemption of convertible bonds (Note b)	290,148,962	29,015
	<u>9,753,158,290</u>	<u>975,315</u>
At 1 January 2016 and 30 June 2016	<u>9,753,158,290</u>	<u>975,315</u>

Notes:

- (a) During the year ended 31 December 2015, 4,731,504,664 ordinary shares of the Company were issued under a rights issue at the subscription price of HK\$0.45 per share on the basis of one rights share for every ordinary share of the Company held on 8 June 2015.
- (b) During the year ended 31 December 2015, convertible bonds with principal amount of approximately RMB61,512,000 were converted into share capital (note 21).

23. SHARE-BASED PAYMENTS

The Company has a share option scheme for eligible directors and employees of the Group. The share options were granted by the Company on 6 September 2010. No share options remain outstanding and exercisable as at 31 December 2015 and 30 June 2016.

No expense was recognised during the six months ended 30 June 2016 and 2015 in relation to the share options granted by the Company.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2016

24. CAPITAL COMMITMENTS

	30 June 2016 HK\$'000 (unaudited)	31 December 2015 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	250,560	78,223

25. OTHER COMMITMENTS

- (a) 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 approximately HK\$114,512,000 (RMB97,870,000) (as at 31 December 2015: approximately HK\$116,790,000 (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 a wholly owned subsidiary of the Company. The tender agreement is still effective at 30 June 2016. The capital of the project company has yet to be registered at 30 June 2016.
- (b) At 31 December 2013, the Group is bounded by agreement to acquire the remaining equity interest at 都匀市科林環保有限公司 (Duyun Kelin Environmental Company Limited*) and 雍安縣科林環保有限公司 (Weng'an Kelin Environmental Company Limited*) from Beijing Keline Haohua Environment Technology Development Company Limited with preliminary consideration of approximately HK\$3,182,000 (as at 31 December 2015: approximately HK\$3,245,000) and approximately HK\$4,910,000 (as at 31 December 2015: approximately HK\$5,008,000) respectively. The date of transfer has not yet been finalised.
- (c) On 12 January 2016, a wholly owned subsidiary of the Company acquired 51% equity interest of 江西瑞金愛思環保電力有限公司 (Jiangxi Ruijin Ai Si Environmental Electric Limited*) ("Jiangxi Ruijin"). According to the sales and purchase agreement, the wholly owned subsidiary of the Company is obligated to further inject approximately HK\$42,121,000 (RMB36,000,000) as registered capital into Jiangxi Ruijin on or before 31 December 2018.

26. CONTINGENT LIABILITIES

At 30 June 2016, the Group provided guarantees of approximately HK\$22,821,000 (as at 31 December 2015: approximately HK\$30,279,000) to two banks 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.

* For identification purposes only

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2016

27. ACQUISITION OF SUBSIDIARIES

During the six months ended 30 June 2016, two acquisitions have been made and details are as follows:

On 12 January 2016, a wholly owned subsidiary of the Company acquired 51% equity interest of Jiangxi Ruijin from independent third parties, for a total amount of approximately HK\$59,672,000 (RMB51,000,000), which include approximately HK\$42,121,000 (RMB36,000,000) of future capital contribution into Jiangxi Ruijin (see note 25 (c)). Therefore, the consideration payable for acquisition of Jiangxi Ruijin is approximately HK\$17,551,000 (RMB15,000,000). Jiangxi Ruijin is responsible for building and operating a solid waste incineration and power generation project in Jiangxi Ruijin City under a BOT arrangement with a concessionary period of 30 years.

On 3 February 2016, a wholly owned subsidiary of the Company acquired 60% equity interests of Gaoan Eacon, from independent third parties, for cash consideration of approximately HK\$8,424,000 (RMB7,200,000). Gaoan Eacon is responsible for building and operating a solid waste incineration and power generation project in Jiangxi Gao An City under a BOT arrangement with a concessionary period of 30 years.

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

	Jiangxi Ruijin	Gaoan Eacon	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Amounts due from grantor for contract work	–	14,041	14,041
Deposits paid for construction of infrastructure in service concession arrangement	19,508	–	19,508
Deposits, prepayments and other receivables	23,203	–	23,203
Bank balances and cash	10,943	–	10,943
Other payables and accruals	(19,241)	–	(19,241)
	34,413	14,041	48,454

Non-controlling interest

The non-controlling interests of 49% of Jiangxi Ruijin and 40% of Gaoan Eacon recognised at the acquisition date were measured by reference to the non-controlling interests' proportionate share of Jiangxi Ruijin and Gaoan Eacon identifiable net assets and amounted to approximately HK\$16,862,000 and approximately HK\$5,616,000, respectively.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2016

27. ACQUISITION OF SUBSIDIARIES (Continued)

Goodwill arising on acquisitions

The acquisitions have been accounted for using purchase method. No goodwill arose from the acquisitions of Jiangxi Ruijin and Gaoan Eacon.

Net cash inflow arising from acquisitions

	Jiangxi Ruijin HK\$'000	Gaoan Eacon HK\$'000	Total HK\$'000
Net cash outflow on acquisitions:			
Cash consideration paid	(17,551)	(7,020)	(24,571)
Deposits previously paid	17,551	2,340	19,891
Bank balances and cash	10,943	–	10,943
	<u>10,943</u>	<u>(4,680)</u>	<u>6,263</u>

Consideration paid/payable

	Jiangxi Ruijin HK\$'000	Gaoan Eacon HK\$'000	Total HK\$'000
Cash	17,551	7,020	24,571
Deferred consideration	–	1,404	1,404
	<u>17,551</u>	<u>8,424</u>	<u>25,975</u>

Impact of acquisitions on the results of the Group

The Group loss for the period were contributed by Jiangxi Ruijin's loss of approximately HK\$60,000 between the date of acquisition and 30 June 2016. No loss is incurred by Gaoan Eacon between the date of acquisition and 30 June 2016.

If the acquisitions had been completed on 1 January 2016, total group loss for the six months ended 30 June 2016 would have been HK\$25,113,000. 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 had the acquisition been completed on 1 January 2016, nor is it intended to be a projection of future results.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2016

28. RELATED PARTY TRANSACTIONS

During the period, in addition to the balances disclosed in notes 13, 17, 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), 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 ("Beijing Capital Group"), 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 party	Nature of the transactions	Six months ended 30 June	
		2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
Entity with significant influence over the Group			
Beijing Capital (HK)	Interest expenses (Note)	–	11,379
	Rental expenses (Note)	720	720

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

As at 30 June 2016, Beijing Capital (HK) has granted the Group two three-year term facilities of RMB300,000,000 (approximately HK\$351,000,000) and RMB1,300,000,000 (approximately HK\$1,521,000,000), totalling RMB1,600,000,000 (approximately HK\$2,000,000,000). The facilities will be expired on November 2016 and March 2018 respectively. The facility with RMB300,000,000 limit has been fully drawn as at 31 December 2015 whereas no drawings have been made from the RMB1,300,000,000 facility as at 30 June 2016.

On 26 November 2015, the Company entered into an acquisition agreement with BCG Chinastar International Investment Limited ("BCG"), a wholly owned subsidiary of Beijing Capital Group and Beijing Capital (HK) to acquire 51% of the issued share capital of BCG NZ Investment Holding Limited ("BCG NZ"). BCG NZ provides comprehensive waste management services, ranging from collection, recycling, waste disposal to hazardous and industrial waste treatment in New Zealand.

As at 30 June 2016, the proposed acquisition on BCG NZ has not been completed.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2016

28. RELATED PARTY TRANSACTIONS *(Continued)*

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

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

During the six months ended 30 June 2016, the Group recognised revenue from the construction services and operating services of approximately HK\$117,893,000 (for the six months ended 30 June 2015: approximately HK\$146,821,000) and approximately HK\$12,643,000 (for the six months ended 30 June 2015: approximately HK\$23,183,000) respectively under service concession arrangements with the local governments in PRC (see note 4).

As at 30 June 2016 and 31 December 2015, the deposits paid for construction of infrastructure in service concession arrangements with the government related entity, Urban Construction Institute, is disclosed in the note 14.

As at 30 June 2016, trade receivable from government subsidiaries in relation to the licenses and franchises for the treatment of certain waste electric and electronic products are approximately HK\$384,128,000 (as at 31 December 2015: approximately HK\$301,456,000).

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2016

28. 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 party	Nature of the transactions	Six months ended 30 June	
		2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
Associate: SZ Yueneng	Interest income (Note)	1,256	738
A company owned by the non-controlling interest of Jiangsu Subei: 淮安市財發擔保有限公司 (Huain Caifa Guarantee Co., Ltd*)	Loan guarantee fee	1,070	1,534

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

Details of the outstanding balances with SZ Yueneng and Beijing Lanjie is set out in note 17.

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

	Six months ended 30 June	
	2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
Short-term benefits	2,233	5,108
Post-employment benefits	–	–
	2,233	5,108

* For identification purposes only

DISCLOSURE OF INTEREST 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 2016, 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 2016, 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	5,001,008,931 (L)	51.28%
Beijing Capital Co., Ltd.	Interest of a controlled corporation (Note)	5,024,218,931 (L)	51.51%
Beijing Capital Group Co., Ltd.	Interest of a controlled corporation (Note)	5,024,218,931 (L)	51.51%

(L) denotes a long position

Note:

These Shares represent 5,001,008,931 shares held by Beijing Capital (HK) Limited and 23,210,000 Shares held by BC Water Investments Co., Ltd., both of them are wholly-owned subsidiaries of Beijing Capital Co., Ltd.. Beijing Capital Co., Ltd. is in turn controlled by Beijing Capital Group Co., Ltd.. As such, Beijing Capital Group Co., Ltd. and Beijing Capital Co., Ltd. were deemed to have interest in the said Shares held by Beijing Capital (Hong Kong) Limited and BC Water Investments Co., Ltd. for the purposes 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 2016 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.

DISCLOSURE OF INTEREST AND OTHER INFORMATION (CONTINUED)

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") 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 2016.

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.

AUDIT COMMITTEE

The audit committee comprises three independent non-executive directors, namely, Dr. Chan Yee Wah, Eva, Mr. Pao Ping Wing and Mr. Cheng Kai Tai, Allen. Dr. 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 auditing, internal controls and financial reporting matters including the review of the unaudited interim results for the six months ended 30 June 2016 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 2016 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



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