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

Annual Report 2014年報

CONTENTS

CORPORATE INFORMATION

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Independent Non-executive Directors

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

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
Standard Chartered Bank (Hong Kong) 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

CHAIRMAN'S STATEMENT

In 2014, the living of residents environment in China was heavily affected by various environmental issues such as, abundant waste in cities and low resource recycling utilization. Proper disposal and recycling of household waste has become an unavoidable issue for governments and enterprises, which aroused great attention to the environmental protection industry.

With a commitment to environment improvement, Capital Environment Holdings Limited ("Capital Environment" or the "Group") leveraged upon the all-dimensional strategic deployments and clear marketing positioning of its controlling shareholder Beijing Capital to effectively seek business synergies. Rooted in the environmental protection industry, the Group aims to promote the marketization of public infrastructure and pool the efforts to build itself into the most competitive integrated environmental service provider with attractive growth potential.

Thanks to ongoing expansion of its environmental segment, Capital Environment made great strides in new projects development. Fording through difficulties decidedly, the Group secured 8 new projects in 2014 in Shanxi, Guangdong, Jiangsu and Heilongjiang. In addition to a positive progress in operation of the waste incineration project in Nanchang, Jiangxi, the Group penetrated into new areas including biomass power generation and disposal of hazardous waste. These initiatives allowed the Group to extend its environmental business chain and expand its footprints in Mainland China, consolidating its leadership in the environmental industry.

Through unremitting efforts over the year, the Group was named the "Top Ten Influential Enterprises in China's Solid Waste Industry" for three consecutive years, in recognition of its remarkable market influence, clear strategic positioning and diversified business structure. This honor evidenced the effectively elevated market position and brand influence of the Group as a management and innovation pacesetter in the industry.

Looking ahead, the Group is positioned to maintain sound growth momentum through tremendous efforts in light of its philosophy combining adjustments, reforms, development, innovations and management. Shouldering the responsibility for solving environmental issues, the Group expects to work with local government to address public concerns and contribute to the environmental protection cause of China.

Mr. Yu Changjian
Chairman

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND FINANCIAL REVIEW

Business Review

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

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

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

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

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

Business Prospects

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial Review

Overview

The net loss attributable to the owners of the Company amounted to approximately HK$68.3 million for the year under review, among which the impairment loss recognised in respect of deposit paid for construction of infrastructure in service concession arrangements amounted to approximately HK$104.9 million.

Waste treatment and Waste-to-Energy Business

During the year under review, the Group's revenue from its waste treatment and waste-to-energy business reached approximately HK$963.6 million, representing an increase of approximately 241.2%, as compared to last year.

For the year under review, the Group's gross profit was approximately 12.7%. It was mainly because the cost of sales for the last year included reversal of provision for expected losses in relation to service concession arrangements in previous years of approximately HK$83.3 million.

Administrative Expenses

The Group's administrative expenses increased by approximately 44.0% to approximately HK$103.2 million during the year under review. This increase was mainly attributable to the consolidation of the administrative expenses increased by newly acquired subsidiaries.

Finance Costs

Finance costs increased by approximately 20.4% to approximately HK$67.3 million, as compared to last year. This increase was mainly attributable to the increase in the interests on borrowings.

Financial Position

As at 31 December 2014, the Group had total assets amounting to approximately HK$2,992.1 million, with approximately HK$488.9 million of net assets attributable to the 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 2.40 as at 31 December 2014. The current ratio, which is calculated on the basis of current assets over current liabilities, decreased from approximately 1.17 as at 31 December 2013 to approximately 0.55 as at 31 December 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 31 December 2014, the Group had cash and bank balances and pledged bank deposits of approximately HK$490.3 million, representing an decrease of approximately 143.3 million as compared to approximately HK$633.6 million as at the end of 2013. The decrease was mainly due to increase in investments on waste treatment projects during the year under review. Currently, most of the Group's cash is denominated in HK dollars and RMB.

Borrowings

As at 31 December 2014, the Group had outstanding borrowings of approximately HK$1,662.8 million, representing an increase of approximately HK$671.7 million as compared to approximately HK$991.1 million as at the end of 2013. The borrowings comprised secured loans of approximately HK$1,598.3 million and unsecured loans of approximately HK$64.5 million. The borrowings are denominated in HK dollars and RMB. Approximately 35.2% and 64.8% of the borrowings are at fixed rate and variable rate respectively.

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 of Directors of the Company ("the Board") does not expect future currency fluctuations to materially impact the Group's operations. During the year, the Group has adopted no formal hedging policies and no instruments have been applied for foreign currency hedging purposes. 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 31 December 2014, the Group's prepaid lease payments of HK$45.0 million and pledged bank deposits of HK$22.1 million were pledged to secure banking facilities.

Capital Commitment

As at 31 December 2014, the Group had capital commitment of approximately HK$182.5 million 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 31 December 2014, the Group provided guarantees of approximately HK$11.9 million to a bank in respect of banking facilities granted to an associate.

Employment Information

As at 31 December 2014, the Group had about 1,093 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.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Yu Changjian, aged 59, a senior accountant, was appointed as an executive director and chairman of the Company in May 2011. Mr. Yu was the section chief of Beijing Chemical Equipment Plant's Finance Department, deputy chief accountant of Supply and Marketing Company of Beijing Chemical Industry Corporation, manager of Planning & Finance Department of Beijing Capital Group Co., Ltd., the chairman of Beijing Capital Securities Co., Ltd., the chairman of China Post & Capital Fund Management Co., Ltd. and chief financial officer of Beijing Capital Group Co., Ltd.. Mr. Yu is serving as a director and the general manager of Beijing Capital Co., Ltd..

Mr. Yu has years of experience in financial affairs and financial management, with profound understanding and unique insights of investment and financing for public infrastructure industries. Mr. Yu also has extensive theoretical knowledge and operating experience in economy and finance.

Mr. Cao Guoxian, aged 51, is a postgraduate, he was appointed as an executive director and chief executive officer of the Company in July 2011. Mr. Cao served in the foreign language department of Henan Normal University and Bureau of International Cooperation under the Chinese Academy of Sciences. Mr. Cao worked as manager of oversea business department of Beijing Jingfang Economic Development Corporation, assistant to the chairmen of Capital Land Ltd. and deputy officer of the office of Beijing Capital Group Co., Ltd., and he is currently the deputy general manager of Beijing Capital Co., Ltd.. Since 25 June 2014, he has been appointed as an non-executive director of China Environmental Technology Holdings Limited which is a company listed on The Stock Exchange.

Mr. Cao has engaged in overseas investment and financing business for many years, with extensive experience in investment management and wide international perspective. He also has considerable knowledge and operating experience in international investment and financing and capital market.

Mr. Liu Xiaoguang, aged 60, was appointed as an executive director of the Company in May 2011. Mr. Liu is a senior economist, and guest professor and tutor for M.A and Ph.D students of Tsinghua University, Beijing Technology and Business University and Chinese Academic of Social Sciences. He was chief economist and deputy director of the Beijing Municipal Planning Committee. Mr. Liu serves as the chairman and the Secretary of Party Committee of Beijing Capital Group Co., Ltd., the chairman of the board of directors of Beijing Capital Co., Ltd., a standing director of China Enterprise Confederation and Chinese Enterprise Directors Association, and the vice-chairman of Beijing Enterprise Directors Association. Moreover, Mr. Liu has been appointed as an executive director and the chairman of Beijing Capital Land Limited since 5 December 2002, an executive director of China Development Bank International Investment Limited since 14 April 2004 and an non-executive director of Juda International Holdings Limited. These companies are listed on the Stock Exchange.

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Pao Ping Wing, JP, aged 67, was appointed as an independent non-executive director of the Company in June 2006. He had been actively serving on government policy and executive bodies, including those relating to town planning, urban renewal, public housing and environment matters for 25 years. He has been appointed as a Justice of the Peace of Hong Kong since 1987. He was an ex-urban councilor. He obtained a Master of Science Degree in Human Settlements Planning and Development from the Asian Institute of Technology in Thailand in 1980. He was elected as one of the Ten Outstanding Young Persons of Hong Kong in 1982 and one of the Ten Outstanding Young Persons of the World in 1983. He is an independent non-executive director of Oriental Press Group Limited, Sing Lee Software (Group) Limited, UDL Holdings Limited, Zhuzhou CSR Times Electric Co. Ltd., Soundwill Holdings Limited, Maoye International Holdings Limited, HL Technology Group Limited and JC Group Holdings Limited, all of which are listed on the Stock Exchange.

Mr. Cheng Kai Tai, Allen, aged 51, was appointed as an independent non-executive director of the Company in January 2010. He is a qualified accountant and a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He has practiced as a Certified Public Accountant in Hong Kong for over 20 years and has extensive professional experience in auditing, taxation, financial management, corporate recovery and restructuring. Mr. Cheng holds a Master Degree of accountancy from Jinan University in China and is a professional advisor to several international companies of investment management, textile, retailing, metal trading and manufacturing in China and Japan.

Dr. Chan Yee Wah, Eva, age 49, was appointed as an independent non-executive director of the Company in July 2012. She has more than 25 years of financial and management experience and has been senior executives of various listed companies in Hong Kong. Dr. Chan is a fellow member of Hong Kong Institute of Certified Public Accountants, a fellow member of the Association of Chartered Certified Accountants and a fellow member of the Hong Kong Institute of Chartered Secretaries. Dr. Chan graduated from City University of Hong Kong with a Bachelor of Arts in Accounting. She then earned her MBA degree from the University of Nottingham. She also obtained a DBA degree from the Polytechnic University of Hong Kong. She is currently the Head of Investor Relations of C C Land Holdings Limited.

SENIOR MANAGEMENT

Mr. Gu Jinshan, a Doctor degree holder, senior engineer, was appointed as the Deputy General Manager of the Company in February 2015. He is responsible for leading of Investments Department I and Corporate Management.

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

Mr. Liu Yanjun, was appointed as the Deputy General Manager of the Company in June 2011. He is responsible for corporate strategies, capital market and management of the Board of the Company. Mr. Liu obtained a Bachelor degree in Environmental Science from the Northeast Normal University and a Master degree in Business Administration from the University of Technology of Sydney, Australia. He was previously a Chief of Office in project management in Harbin Drainage Management, a Senior Investment Manager in PCCW (Beijing) Limited, a Deputy General Manager of the Strategy Department and a General Manager of the International Cooperation Department in Beijing Capital Co. Ltd., and a Deputy General Manager in Beijing Capital (Hong Kong) Limited.

Mr. Liu has over ten years of experience in both areas of environmental protection and capital market. He understands and is familiar with the industry development and the market practices. He participated in and was in charge of the investment in as well as the acquisition and restructuring of a number of environmental protection projects. He possesses extensive solid experience in the formulation of the development strategies for investment companies and the operation of capital market.

Mr. Xu Jinjun, was appointed as the Deputy General Manager of the Company in June 2011. He is responsible for technology and engineering as well as project operational management of the Company. Mr. Xu obtained a Master degree from the Chinese Academy of Sciences. He has an educational background in both the management and environmental engineering. He was previously a Secretary to General Manager in Beijing Cement Plant of BBMG Group, a General Manager of the Department of Water Business Unit in Duoyuan Global Water Inc., a General Manager of the Market Management Department in Duoyuan Electricity and Gas, and a Deputy General Manager in Hunan Capital Investment Co., Ltd.

Mr. Xu has over ten years of experience in the environmental protection area. He has extensive knowledge in the financial forecast, laws and regulations, technological standards and relevant industry practices for franchising projects of public utilities. He has a well-developed network in the environmental protection industry and is good at team building and organizational management. He has relatively deep knowledge about and extensive practical experience in the investment, construction and operational management in public infrastructures.

Mr. Wang Wei, was appointed as the Financial Controller of the Company in June 2011 and then as the Chief Financial Officer of the Company in February 2013. He is responsible for the financial management of the Group, and the financial management and financing for project companies. Mr. Wang obtained a Bachelor degree in Accounting and Economics from Capital University of Economics and Business and a Master degree in Professional Accounting from the Business School of Renmin University of China, and obtained the PRC Certified Public Accountant qualification in 2001. He was previously an Auditing Project Manager in Grant Thornton, a Senior Manager of the Audit Department in Tsinghua Tong Fang Co. Ltd., a Senior Investment Manager of the Investment Department and a Senior Investment Analyst of the Financial Department in Beijing Capital Co. Ltd., an expatriate Financial Controller in Shenzhen Capital Water Co. Ltd., an expatriate Financial Controller in Capital AIHUA (Tianjin) Municipal Environmental Engineering Co., Ltd., an expatriate Financial Controller in Haining Capital Water Co., Ltd. and an expatriate Financial Controller in Qingdao Capital Water Co., Ltd..

Mr. Wang has over ten years of experience in the environmental protection area and is familiar with the investment forecast of urban infrastructure projects. He has extensive experience particularly in the financial management and corporate finance of urban infrastructure companies.

Mr Yan shengli was appointed as the Assistant President of the Company in June 2011 and then as the Vice President in January 2013. Mr Yan is responsible for leading of Operation Center and Legal affairs of the Company.

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

Mr. Hu Zaichun was appointed as the Assistant President of the Company in September 2011 and then as the Vice President of the Company in January 2013, responsible for Investments Department II.

Mr. Hu is a postgraduate from University of Chinese Academy of Sciences and Research Center for Eco-Environmental Sciences, Chinese Academy of Sciences, and holds a bachelor degree of geochemistry from the University of Science and Technology of China. He was a visiting scholar of National Center for Atmospheric Research, USA. Mr. Hu served as Assistant Engineer and Engineer in the Investment Division of the Planning Bureau of Chinese Academy of Sciences (Financial Planning Bureau), Secretary of the Office of Chinese Academy of Sciences, Secretary to the Special Inspector of the State Council (Chairman of State-owned Enterprises Supervisor Committee) of the General Administration of Special Inspector of the State Council (Work Office of State-owned Enterprises Supervisor Committee), General Manager of the Property Management Department, Secretary to the First Supervisor Committee, Supervisor of the Second Supervisor Committee in Chinese Academy of Sciences Holdings Co., Ltd.. He took part in the preparation of 光電集團 and Chinese Academy of Sciences Holdings Co., Ltd., and served as Chairman of the Second Session of Board of Directors in Architecture Design and Research of C. A. S, director of the First Session of Board of Directors in CAS Publication Group Co., Ltd, Assistant to the General Manager, Secretary of the Second Session of the Board of Directors and Director of Office of the Party Committee in CAS Publication Group Co., Ltd (Science Press Ltd.).

Ms. Wong Bing Ni, was appointed as company secretary and authorized representative of the Company in June 2010. Ms. Wong is a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants, an associate member of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators. She holds a master degree in Professional Accounting and she has over ten years of experience in company secretarial matters, internal control and financial management which acquired from Hong Kong listed companies.

CORPORATE GOVERNANCE REPORT

The Board of the Company 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 (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the year ended 31 December 2014.

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 to the Listing Rules as its code for dealing in securities of the Company by the Directors. The Model Code is also applicable to the senior management of the Company. After a specific enquiry conducted by the Company, all the Directors confirmed that they have fully complied with the required standards set out in the Model Code throughout the year under review.

BOARD OF DIRECTORS

The Board is primarily responsible for establishing the strategic direction of the Group, setting objective and business development plan for the Group, monitoring the performance of the senior management and assuming responsibility for corporate governance. The Board is also responsible for the preparation and presentation of annual and interim results, risk management, major acquisition(s), and other significant operational and financial matters. Both the Board and the management have clearly defined roles and powers towards internal control, policies and day-to-day operations of the Group's business. The management, under the leadership of the Board, will be empowered to implement the Group's strategies and business objectives.

With a view to achieving a sustainable and balanced development, the Company considers the increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and sustainable development. The Board diversity has been considered in terms of a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

The Board currently comprises four executive directors and three independent non-executive directors:

Executive directors

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

Independent non-executive directors

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

The biographical details of all Directors are set out in the section headed "Board of Directors and Senior Management" of this annual report. Save as disclosed, none of the Directors has any relationship including financial, business, family or other material relationship with each other.

Every director has sufficient time and attention to deal with the Company's affairs. Every director is required to disclose the number and nature of offices held in public companies or organizations and other significant commitments to the Company on an annual basis.

To comply with Rule 3.10 of the Listing Rules, the Company has appointed three independent non-executive Directors whom the Company considers having the appropriate and sufficient industry or finance experience and qualifications to carry out their duties. Pursuant to the requirements of Rule 3.13 of the Listing Rules, the Company has received annual confirmation of independence from the three independent non-executive Directors. They were free from any business relationship or other circumstances that could materially interfere with the exercise of their independent or objective judgments. The Company is of the view that all the independent non-executive Directors are independent. Also, the three Independent Non-Executive Directors, representing over one-third of the Board, constituted a proper balance of power maintaining full and effective control of both the Group and its executive management. Mr. Pao Ping Wing, an independent non-executive director of the Company, has entered into a letter of appointment with the Company for a term of three years and the 9 years tenure of office of Mr. Pao will be expired on 14 June 2015. Therefore, his further appointment should be subject to a separate resolution to be approved by shareholders in the forthcoming 2015 annual general meeting. Apart from this, there is no independent non-executive director has taken the tenure of office of the Company for more than 9 years.

The Board is circulated with relevant information by the senior management pertaining to matters to be brought before the Board for decision as well as reports relating to operational, business and financial performance of the Group before each board meeting. A 14 days minimum notice is given to all Directors before each regular board meeting and a reasonable notice will also be given for convening other board meetings, to give them the opportunity to prepare for their attendance of such meetings and to provide them with the opportunity to include additional matters in the meeting's agenda. Board papers are dispatched to the Directors at least 3 days before the meeting to ensure they have ample time to review the papers and be adequately prepared for the meeting. Senior management, responsible for the preparation of the Board papers, are invariably invited to present their papers and to take any questions or address any queries that the Board members may have on the papers in the meetings.

The proceedings of the Board at its meeting are conducted by the Chairman of the Company or the person acting the role as the chairman of the meetings who ensures that sufficient time is allocated for discussion and consideration of each agenda item and also equal chances are being given to each Director to express their views and share their concerns.

In considering any matters or transactions at any Board meeting, the Directors are required to declare any direct or indirect interests, and shall abstain from voting at the meeting(s) where appropriate. Minutes of the Board meetings will record in details the matters considered by the Board and the decisions reached. The draft minutes of each Board meeting are sent to the Directors for comments within a reasonable time after the meeting.

During the year under review, the Board held ten board meetings and six general meetings, and all Directors were entitled to attend such meetings. The attendance of each Director is set out below:

	Meeting attendance/held	
	Board meetings	General meetings
Executive Directors		
Mr. Yu Changjian	8/10	0/3
Mr. Cao Guoxian	9/10	2/3
Mr. Liu Xiaoguang	8/10	0/3
Mr. Xue Huixuan *(resigned on 27 October 2014*)*	0/9	0/2
Mr. Shen Jianping	9/10	0/3
Independent non-executive Directors		
Mr. Pao Ping Wing	8/10	3/3
Mr. Cheng Kai Tai, Allen	9/10	0/3
Mr. Li Baochun *(resigned on 8 August 2014**)*	3/4	0/2
Ms. Chan Yee Wah, Eva	8/10	3/3

* Mr. Xue Huixuan resigned as an executive Director of the Company on 27 October 2014. Nine Board meetings and two general meetings were held during the period of his appointment.

** Mr. Li Baochun retired as an executive Director of the Company on 8 August 2014. Four Board meetings and two general meetings were held during the period of his appointment.

Directors' Training and Professional Development

Provision A.6.5 of the Code provides that Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant.

During the year ended 31 December 2014, all existing Directors had participated in appropriate continuous professional development activities by ways of attending training and/or reading materials relevant to the Company's business or to the Directors' duties and responsibilities. The trainings attended by each Director are as follows:

	Type of training
Executive Directors	
Mr. Yu Changjian	A,B
Mr. Cao Guoxian	A,B
Mr. Liu Xiaoguang	A,B
Mr. Shen Jianping	A,B
Independent non-executive Directors	
Mr. Pao Ping Wing	A,B
Mr. Cheng Kai Tai, Allen	A,B
Ms. Chan Yee Wah, Eva	A,B

Notes:

A: attending seminar/workshops/forums/training courses

B: reading newspapers, publications and updates in relation to economic and environmental issues or duties and responsibilities of Directors

CHAIRMAN AND CHIEF EXECUTIVE

The Chairman, Mr. Yu Changjian, is responsible for the formulation of overall corporate direction and business development strategy of the Group. He is also responsible for ensuring that good corporate governance practices and procedures are established, implemented and enforced.

The Chief Executive Officer, Mr. Cao Guoxian, is responsible for the day-to-day management of the Group and the implementation of the approved strategies.

NON-EXECUTIVE DIRECTORS

During the year under review, each of the non-executive Director and independent non-executive Directors has entered into letter of appointment with the Company for a term of three years and all subject to the rotational retirement provisions of the memorandum and articles of association of the Company.

BOARD COMMITTEES

The Board is responsible for performing the corporate governance functions within its terms of reference. The duties of the Board include to develop and review corporate governance policies and practices of the Company; to review and monitor the training and continuous professional development of Directors and senior management, and the Company's policies and practices in compliance with legal and regulatory requirements; to develop, review and monitor the code of conduct applicable to directors and employees; and to review the Company's compliance with the Corporate Governance Code and disclosures in the Corporate Governance Report as required under the Appendix 14 of the Listing Rules.

Nomination Committee

The Board established a nomination committee on 15 June 2006 with written terms of reference. During the year under review, the nomination committee comprises four members, the majority of whom are independent non-executive Directors. The chairman of the committee is Mr. Yu Changjian, an executive Director and the Chairman of the Company and other members are the three independent non-executive Directors, namely, Mr. Pao Ping Wing, Mr. Cheng Kai Tai, Allen and Ms. Chan Yee Wah, Eva. The principal roles and functions of the nomination committee include:

— To review the structure, size and composition of the Board on a regular basis and make recommendations to the Board regarding any proposed changes;

— To determine the policy for the nomination of Directors and review the diversity policy of Board members on a regular basis;

— To identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

— To make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors in particular the Chairman and the Chief Executive Officer.

All nominations of new Directors and Directors for re-election at the annual general meeting are first considered by the nomination committee, its recommendations would then be put forward for the Board's decision. Subsequently, all those Directors are subject to re-election by the shareholders in the annual general meeting pursuant to the memorandum and articles of association of the Company. In considering the new appointment or re-election of Directors, the nomination committee will focus their decisions based on attributes such as integrity, loyalty, industry exposure and professional and technical skills together with the ability to contribute time and effort to carry out their duties effectively and responsibly.

During the year under review, the nomination committee had held one meeting for the nomination of Mr. Yu Changjian, Mr. Cao Guoxian, Mr. Shen Jianping and Mr. Pao Ping Wing, who were retiring at the annual general meeting held on 7 May 2014, as Directors and their re-election in the same annual general meeting.

The individual attendance record of each member of the Nomination Committee is as follows:

	Meeting attendance/held
Mr. Yu Changjian *(Chairman of Nomination Committee)*	1/1
Mr. Pao Ping Wing	1/1
Mr. Cheng Kai Tai, Allen	1/1
Ms. Chan Yee Wah, Eva	1/1

Remuneration Committee

The Company established a remuneration committee on 15 June 2006 with written terms of references. During the year under review, the remuneration committee comprises three members, a majority of whom are independent non-executive Directors. The chairman of the committee is Mr. Pao Ping Wing, an independent non-executive Director and other members are Mr. Cheng Kai Tai, Allen, an independent non-executive Director and Mr. Yu Changjian, an executive Director and the Chairman of the Company. The principal roles and functions of the remuneration committee include:

— To make recommendations to the Board on the Company's policy and structure for remuneration of all Directors and senior management of the Group;

— To approve the terms of executive Directors' service contracts;

— To have the delegated responsibility to determine the specific remuneration packages of all executive Directors and senior management of the Group, and make recommendations to the Board of the remuneration of non-executive Directors and independent non-executive Directors;

— To review and approve performance-based remuneration with reference to corporate goals and objectives resolved by the Board from time to time;

— To review and approve the compensation payable to executive Directors and senior management of the Group in connection with any loss or termination of their respective office or appointment; and

— To review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct.

During the year under review, the remuneration committee had held one meeting with all members of the committee being present in the meeting to consider and review remuneration package to all Directors.

The individual attendance record of each member of the Remuneration Committee is as follows:

	Meeting attendance/held
Mr. Pao Ping Wing *(Chairman of Remuneration Committee)*	1/1
Mr. Yu Changjian	1/1
Mr. Cheng Kai Tai, Allen	1/1

As incentive to attract, retain and motivate employees or senior management to strive for future developments and expansion of the Group and to provide the Company with flexible means of rewarding and remunerating employees, the Company has adopted a share option scheme and the grantees of which include senior management and persons who hold key management positions in the Company, in addition, an annual appraisal had been conducted by the Company and employees are rewarded a performance bonus based on the results of such annual appraisal.

Audit Committee

The Company established an audit committee on 15 June 2006 with written terms of reference in compliance with the Code. 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 respectively. Ms. Chan Yee Wah, Eva is the chairman of the Audit Committee. All of the Audit Committee members possess the necessary qualifications or experience in financial matters and are well versed and well exposed in the accounting and financial areas, which are crucial to their key roles and functions. The principal roles and functions of the committee include:

— To consider and recommend to the Board on the appointment, re-appointment and removal of external auditors, and to approve their remuneration, and any question of their resignation and dismissal;

— To maintain an appropriate relationship with the Group's external auditors;

— To review the financial information of the Group; and

— To oversee the Group's financial reporting system and internal controls procedures.

During the year under review, the Audit Committee had held two meetings with the Group's senior management and its external auditors. The attendance record of each member of the Audit Committee is as follows:

	Meeting attendance/held
Ms. Chan Yee Wah, Eva *(Chairman of Audit Committee)*	2/2
Mr. Pao Ping Wing	2/2
Mr. Cheng Kai Tai, Allen	2/2

The works performed by the Audit Committee during the year under review include:

— To review the interim report and interim results announcement for the six months ended 30 June 2014;

— To review the annual report and annual results announcement for the year ended 31 December 2013;

— To review the accounting principles and practices adopted by the Group and other financial reporting matters;

— To discuss with external auditor on any significant findings and audit issues;

— To discuss the effectiveness of the system of internal controls throughout the Group, including financial, operational and compliance controls, and risk management; and

— To review all significant business affairs managed by the executive Directors.

Minutes of the Audit Committee meeting have recorded the details of the matters considered by the audit committee members and the decisions reached. Drafts of these minutes were sent to the Audit Committee members for comments within a reasonable time after the Audit Committee meeting.

AUDITOR'S REMUNERATION

For the year ended 31 December 2014, the auditors' remuneration paid or payable in respect of the audit services and non-audit services provided by the auditors to the Group were as follows:

	HK$'000
Audit service	3,000
Non-audit service	2,545
	5,545

COMPANY SECRETARY

The company secretary (the "Company Secretary") is a full-time employee of the Company, has an understanding of the Company's day-to-day affairs, and shall be responsible to the Board. All Directors are able to seek advice and services from the Company Secretary on the Board procedures and all applicable laws, rules and regulations, and corporate governance matters. The Company Secretary assists the Chairman to prepare agendas and Board papers for meetings and disseminates such documents to the Directors and board committees in a timely manner. The Company Secretary maintains formal minutes of the Board meetings and other Board committee meetings.

During the year ended 31 December 2014, the Company Secretary of the Company had confirmed that she had taken no less than 15 hours of relevant professional training.

SHAREHOLDERS' RIGHTS

Convening of extraordinary general meeting on requisition by shareholders

Pursuant to article 58 of the Articles of Association, extraordinary general meetings of the Company (the "EGM(s)") shall be convened on the requisition of one or more Shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the company secretary of the Company for the purpose of requiring an EGM to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s), as a result of the failure of the Board to convene the EGM(s), shall be reimbursed to the requisitionist(s) by the Company.

Procedures for putting forward proposals at Shareholders' meeting

The number of Shareholders necessary for putting forward a proposal at a Shareholders' meeting shall be any number of Shareholders representing not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings at the date of the request.

Procedures for proposing an individual person for election as a director

As regards the procedures for proposing an individual person for election as a Director, please refer to the "Procedures for Directors' Election" made available under the Corporate Governance section of the Company's website at www.cehl.com.hk.

Procedures for putting forward enquiries to the Board

Annual general meetings and extraordinary general meetings also provide an effective platform for shareholders to communicate with the Board. Members of the Board (including members of the Audit Committee, the Remuneration Committee and the Nomination Committee) attended shareholders' meetings and make themselves available to answer shareholders' questions. Enquiries of shareholders may also be put forward to the Board in writing through contacting the Company Secretary by way of telephone number, email address or the Company's principal place of business in Hong Kong, as stated in our website.

INVESTOR RELATIONS

Communication with shareholders of the Company is given the highest priority. To promote and enhance investor relations and communications, the Company has established and maintained intensive communication channels with the media, analysts and fund managers through one-on-one meetings, road shows and conferences. Designated members of the Board and the senior management of the Group are given the specific responsibilities to maintain regular dialogues with institutional investors, potential institutional investors, fund managers, shareholders and analysts to keep them abreast of the Company's development.

The Company regards the annual general meeting as an important event as it provides an important opportunity for direct communications between the Board and the Company's shareholders in the presence of the Company's external auditors. All the Directors and senior management of the Group will make the special effort to attend, notwithstanding their place of residence. External auditors' presence at the meeting would also allow them to address shareholders' queries. Notice of general meetings together with relevant circulars was dispatched to shareholders and they are encouraged to attend the annual general meeting and other general meetings. The procedure of general meeting was conducted in compliance with the Listing Rules and the articles of association of the Company, where sufficient time was given to shareholders for consideration of resolutions proposed and for question and answer, leading to satisfactory communications between the management and shareholders. Announcement of the resolutions passed at such meeting was published on both the websites of the Stock Exchange and the Company in a timely manner.

During the year ended 31 December 2014, there had been no significant change in the Company's constitutional documents.

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for the preparation of the financial statements for each financial year, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that year and in compliance with relevant laws and disclosure provisions of the Listing Rules. In preparing the financial statements for the year ended 31 December 2014, the Directors have selected appropriate accounting policies and applied them consistently; made judgments and estimates that are prudent and reasonable; and have prepared the financial statements on a going concern basis. The Directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Group.

INTERNAL CONTROLS

The Board acknowledges its responsibilities for the Group's internal control system and has reviewed its effectiveness to ensure that all internal control measures are in place to safeguard the Group's assets and to comply with relevant regulations and the Code.

DIRECTORS' REPORT

DIRECTORS' REPORT

The Directors present their report together with the audited consolidated financial statements for the year ended 31 December 2014.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The Group is principally engaged in provision of waste treatment technologies and services which specializes in technology development, design, system integration, project investment, consultancy, operation and maintenance of waste treatment facilities, especially waste-to-energy projects. Particulars of the Company's principal subsidiaries are set out in note 48 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2014 are set out in the consolidated statement of profit or loss and other comprehensive income on page 34 of this annual report.

RESERVES

The Company did not have distributable reserves as at 31 December 2014.

Movements in reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 37 of this annual report.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 124 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 17 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 36 to the consolidated financial statements.

CONVERTIBLE BONDS AND CONVERTIBLE NOTES

A summary of the principal terms of convertible bonds and convertible notes are set out in notes 33 and 32 to the consolidated financial statements respectively.

PLACING OF UNLISTED WARRANTS UNDER GENERAL MANDATE, CONVERTIBLE BONDS/ EMBEDDED DERIVATIVES

On 31 March 2014 and 1 April 2014, the Company entered into a placing agreement and supplemental agreement with a placing agent, Quam Securities Company Limited, pursuant to which, the Company allotted and issued 370,000,000 warrants to seven independent third parties, at the placing price of HK$0.012 per warrant. Each warrant was entitled to subscribe for one Share, and the subscription rights attached to the warrants could be exercised by the placees at any time during twelve months from the issuance date of the warrants to subscribe total 370,000,000 share in the Company at the subscription price of HK$0.80 per share (subject to adjustment). The placing was completed on 14 April 2014.

On 24 October 2014, the Company received a conversion notice issued by a Convertible Bonds holder, Beijing Capital (Hong Kong) Limited ("Beijing Capital (HK)"), requesting the conversion of the Convertible Bonds with a principle amount of HK$22 million into 75,862,068 shares of the Company. On 4 November 2014, the Company issued 75,862,068 shares at a conversion price of HK$0.29 per share.

On 19 November 2014, the Company entered into a supplemental deed with Beijing Capital (HK), holder of the Convertible Bonds in the principle amount of HK$78,000,000. Pursuant to the supplemental deed, the maturity date of the Convertible Bond will be extended to 31 December 2015 and the denomination of the Convertible Bond will be amended from Hong Kong Dollars to Renminbi, The terms of amendment has been effective from 29 December 2014, the principal amount for conversion of the Convertible Bond will be converted to the equivalent Renminbi amount calculated based on the official mid-exchange rate between Hong Kong Dollars and Renminbi as quoted on the China Foreign Exchange Trading System, which was HK$1:RMB0.78861.

The Convertible Notes with a principle amount of HK$16 million issued by the Company on 11 December 2009 which had been matured on 10 December 2014. The interest rate of the convertible Notes is zero. Upon the maturity date, the Company had redeemed all of the abovementioned Convertible Notes.

BANK BORROWINGS

Details of the Group's bank borrowings are set out in note 31 to the consolidated financial statements.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the share option scheme disclosures in note 46 to the consolidated financial statements, at no time during the year was the Company, its holding company, any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors or any of their spouse or children under the age of 18 to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS

The Directors during the year and up to the date of this annual report are:

Executive directors

Mr. Yu Changjian *(Chairman)*
Mr. Cao Guoxian *(Chief Executive Officer)*
Mr. Liu Xiaoguang
Mr. Xue Huixuan *(resigned on 27 October 2014)*
Mr. Shen Jianping

Independent non-executive Directors

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

In accordance with articles 86 and 87 of the Articles of Association of the Company, Mr. Liu Xiaoguang, Mr. Cao Guoxian, Mr. Pao Ping Wing and Ms. Chan Yee Wah, Eva will retire from office and, being eligible offer themselves for re-election at the forthcoming annual general meeting.

The Company has received annual confirmations of independence pursuant to Rule 3.13 of the Listing Rules from each of the independent non-executive Directors and still considers them to be independent.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the Directors and senior management are set out on pages 12 to 15 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each existing executive Director and independent non-executive Director have entered into service contract or letter of appointment with the Company for a term of three years.

Save as disclosed above, none of the Directors has entered into any service contract with the Company which is not terminable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

There are no contracts of significance in relation to the Group's business to which the Company, its holding company or any of its subsidiaries or fellow subsidiaries was a party, and in which a Director had a material interest, whether directly or indirectly, subsisted at the year-end or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 2014, none of the Directors had any interest in any business, apart from the Group's business, which competes or is likely to compete, either directly or indirectly with the Group's business.

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

As at 31 December 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 pursuant to Model Code.

The movements of the Directors' outstanding share options of the Company during the year are set out as follows:

	Number of share options						
	Balance as at 1 January 2014	**Adjusted during the year**	**Lapsed during the year**	**Balance as at 31 December 2014**	**Exercisable period**	**Exercise price**	**Approximate Percentage of issued share capital of the Company**
Employees							
In aggregate	2,703,288 (Note 1)	–	–	2,703,288	06/09/2010–05/09/2015	HK$0.4448	0.06%

Notes:

1. These share options were granted on 6 September 2010 and have vested on 6 September 2010 and be exercisable from 6 September 2010 to 6 September 2015.

None of the above share options were cancelled during the year.

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

As at 31 December 2014, the following shareholders 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)	2,587,883,803 (L)	54.69%
Beijing Capital Co., Ltd.	Interest of a controlled corporation (Note 1)	2,611,093,803 (L)	55.19%
Beijing Capital Group Co., Ltd.	Interest of a controlled corporation (Note 1)	2,611,093,803 (L)	55.19%
Simple Success Investments Limited	Beneficial owner (Note 2)	270,760,000 (L)	5.72%
New World Strategic Investment Limited	Interest of a controlled corporation (Note 2)	270,760,000 (L)	5.72%
New World Development Company Limited	Interest of a controlled corporation (Note 2)	270,760,000 (L)	5.72%
Chow Tai Fook Enterprises Limited	Interest of a controlled corporation (Note 2)	270,760,000 (L)	5.72%
Chow Tai Fook (Holding) Limited	Interest of a controlled corporation (Note 2)	270,760,000 (L)	5.72%
Chow Tai Fook Capital Limited	Interest of a controlled corporation (Note 2)	270,760,000 (L)	5.72%
Cheng Yu Tung Family (Holdings) Limited	Interest of a controlled corporation (Note 2)	270,760,000 (L)	5.72%
Cheng Yu Tung Family (Holdings II) Limited	Interest of a controlled corporation (Note 2)	270,760,000 (L)	5.72%
Favor Action Limited	Beneficial owner (Note 3)	290,000,000 (L)	6.13%
Mr. Yang Zhi You	Interest of a controlled corporation (Note 3)	290,000,000 (L)	6.13%

(L) denotes a long position

Notes:

1. These Shares represent 2,318,918,286 Shares and 268,965,517 underlying Shares which may be issuable upon conversion of all the outstanding amount of the convertible bonds held by Beijing Capital (HK) 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 Group Co., Ltd. and Beijing Capital 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 78.6% 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 represent 190,000,000 Shares and 100,000,000 underlying Shares which may be issuable upon exercise of Warrants 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 31 December 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.

CONNECTED TRANSACTIONS

During the year, the Group had the following connected transactions, details of which are disclosed in compliance with the requirements of Chapter 14 and Chapter 14A of the Listing Rules.

SHAREHOLDER'S LOAN

On 26 March 2014, the Company as borrower and Beijing Capital (HK) as lender entered into a loan agreement, pursuant to which Beijing Capital (HK) agreed to grant a loan in the principal amount of HK$150,000,000 (the "Loan") to the Company with the interest rate of 5.5% per annum for a term of 18 months subject to agreed by the parties. The Loan was secured by the Company's equity interests in a non-wholly owned subsidiary namely, Jiangsu Subei Waste Vehicles and Household Appliances Dismantling Recycling Ltd.* 江蘇蘇北廢舊汽車家電拆解再生利用有限公司. The Company and Beijing Capital (HK) executed a share pledge agreement in such regard on 26 March 2014. On 26 March 2014, Beijing Capital (HK) holds approximately 48.18% of the issued share capital of the Company and is the controlling Shareholder. As such, Beijing Capital (HK) is a connected person of the Company for the purpose of Chapter 14A of the Listing Rules. Accordingly, such transactions constituted connected transactions of the Company. Such transactions were approved by the independent Shareholders at the extraordinary general meeting held on 7 May 2014. The Loan was fully withdrawn up to the date of this report.

PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float as at the date of this report.

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the Group's five largest customers accounted for 87% of the Group's sales for the year and sales to the Group's largest customer included therein accounted for 45%.

Purchase from the Group's five largest suppliers accounted for 30% of the Group's total purchases for the year and purchase from the Group's largest customer included therein accounted for 16%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, owned more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's article of association or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 16 to 25 of this annual report.

AUDITORS

The consolidated financial statements for the year ended 31 December 2014 have been audited by Deloitte Touche Tohmatsu who retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company.

On behalf of the Board

Yu Changjian
Chairman

Hong Kong, 16 March 2015

Deloitte.
德勤

TO THE MEMBERS OF
CAPITAL ENVIRONMENT HOLDINGS LIMITED
首創環境控股有限公司
(FORMERLY KNOWN AS NEW ENVIRONMENTAL ENERGY HOLDINGS LIMITED
新環保能源控股有限公司**)**
(incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of Capital Environment Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 34 to 123, which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion 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. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2014, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
16 March 2015

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the Year ended 31 December 2014

	NOTES	2014 HK$'000	2013 HK$'000
Revenue	7	**963,608**	282,411
Cost of sales		**(841,063)**	(139,324)
Gross profit		**122,545**	143,087
Other income, gains and losses	9	**(104,263)**	45,880
Gain (loss) on fair value change of embedded derivatives	33	**86,762**	(117,410)
Gain on fair value change of warrants	34	**3,861**	–
Administrative expenses		**(103,164)**	(71,637)
Share of results of an associate	23	**4,102**	11,556
Finance costs	10	**(67,292)**	(55,884)
Loss before tax	11	**(57,449)**	(44,408)
Income tax (expense) credit	12	**(5,080)**	1,846
Loss for the year		**(62,529)**	(42,562)
Other comprehensive (expense) income			
Items that will not be reclassified to profit or loss:			
Exchange differences arising on translation:			
Exchange difference arising during the year		**(21,012)**	13,015
Exchange difference arising from an associate during the year		**(6,112)**	3,332
Other comprehensive (expense) income for the year (net of tax)		**(27,124)**	16,347
Total comprehensive expense for the year		**(89,653)**	(26,215)
(Loss) profit for the year attributable to:			
Owners of the Company		**(68,266)**	(124,370)
Non–controlling interests		**5,737**	81,808
		(62,529)	(42,562)
Total comprehensive (expense) income attributable to:			
Owners of the Company		**(90,852)**	(108,476)
Non-controlling interests		**1,199**	82,261
		(89,653)	(26,215)
Loss per share	16		
Basic		HK$(1.46) cents	HK(3.77) cents
Diluted		HK$(2.81) cents	HK(3.77) cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2014

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

Consolidated Statement of Financial Position (Continued)

At 31 December 2014

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

The consolidated financial statements on pages 34 to 123 were approved and authorised for issue by the board of directors on 16 March 2015 and are signed on its behalf by:

DIRECTOR *DIRECTOR*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year ended 31 December 2014

	Attributable to owners of the Company										
	Share capital HK$'000	Share premium HK$'000	Translation reserve HK$'000	Share option reserve HK$'000	Special reserve HK$'000 (Note)	Convertible bonds equity reserve HK$'000	Convertible notes equity reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2013	186,226	1,542,219	68,701	227	25,155	–	174,156	(1,935,936)	60,748	(9,531)	51,217
Loss for the year	–	–	–	–	–	–	–	(124,370)	(124,370)	81,808	(42,562)
Exchange differences on translation	–	–	12,562	–	–	–	–	–	12,562	453	13,015
Exchange differences arising from an associate on translation	–	–	3,332	–	–	–	–	–	3,332	–	3,332
Total comprehensive income (expense) for the year	–	–	15,894	–	–	–	–	(124,370)	(108,476)	82,261	(26,215)
Rights issue (Note 36(b))	279,338	428,648	–	–	–	–	(178,897)	–	529,089	–	529,089
Share issuance expenses	–	(4,495)	–	–	–	–	–	–	(4,495)	–	(4,495)
Capital contribution from non-controlling interests of a subsidiary	–	–	–	–	–	–	–	–	–	6,580	6,580
Acquisition of subsidiaries (Note 38(b))	–	–	–	–	–	–	–	–	–	118,446	118,446
Disposal of subsidiary	–	–	–	–	(25,155)	–	–	25,155	–	–	–
Deferred tax liabilities on recognition of equity components of convertible notes (Note 32)	–	–	–	–	–	–	4,882	–	4,882	–	4,882
Lapse of share option (Note 46)	–	–	–	(129)	–	–	–	129	–	–	–
At 31 December 2013	465,564	1,966,372	84,595	98	–	–	141	(2,035,022)	481,748	197,756	679,504

Consolidated Statement of Changes in Equity (Continued)

For the Year ended 31 December 2014

	Attributable to owners of the Company										
	Share capital HK$'000	Share premium HK$'000	Translation reserve HK$'000	Share option reserve HK$'000	Special reserve HK$'000 (Note)	Convertible bonds equity reserve HK$'000	Convertible notes equity reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
(Loss) profit for the year	–	–	–	–	–	–	–	(68,266)	(68,266)	5,737	(62,529)
Exchange differences on translation	–	–	(16,474)	–	–	–	–	–	(16,474)	(4,538)	(21,012)
Exchange differences arising from an associate on translation	–	–	(6,112)	–	–	–	–	–	(6,112)	–	(6,112)
Total comprehensive (expense) income for the year	–	–	(22,586)	–	–	–	–	(68,266)	(90,852)	1,199	(89,653)
Capital contribution from non-controlling interests of a subsidiary	–	–	–	–	–	–	–	–	–	2,404	2,404
Acquisition of subsidiaries (Note 38(a))	–	–	–	–	–	–	–	–	–	2,292	2,292
Conversion of convertible bonds (Note 33)	7,586	38,567	–	–	–	–	–	–	46,153	–	46,153
Issuance of convertible bonds (Note 33)	–	–	–	–	–	51,981	–	–	51,981	–	51,981
Redemption on convertible notes (Note 32)	–	–	–	–	–	–	(141)	–	(141)	–	(141)
At 31 December 2014	473,150	2,004,939	62,009	98	–	51,981	–	(2,103,288)	488,889	203,651	692,540

Note:

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year ended 31 December 2014

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

Consolidated Statement of Cash Flows (Continued)

For the Year ended 31 December 2014

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

1. GENERAL

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

The principal activity of the Company and its subsidiaries is waste treatment and waste-to-energy business.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Amendments to HKAS 32 Offsetting *Financial Assets and Financial Liabilities*

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

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

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

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

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

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

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

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

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

HK(IFRIC) - Int 21 *Levies*

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

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

New and revised HKFRSs issued but not yet effective

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

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

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

New and revised HKFRSs issued but not yet effective *(continued)*

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

HKFRS 9 *Financial Instruments*

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

Key requirements of HKFRS 9 are described below:

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

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

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

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

HKFRS 9 *Financial Instruments* *(continued)*

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

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

Annual Improvements to HKFRSs 2010-2012 Cycle

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

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

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

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

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

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

Annual Improvements to HKFRSs 2010-2012 Cycle *(continued)*

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

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

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

Annual Improvements to HKFRSs 2011-2013 Cycle

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

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

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

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

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

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

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

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

Annual Improvements to HKFRSs 2012-2014 Cycle

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance (Cap. 32).

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved where the Company:

- has power over the investee;

- is exposed, or has rights, to variable returns from its involvement with the investee; and

- has the ability to use its power to affect its returns.

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

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

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation *(continued)*

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

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

Changes in the Group's ownership interests in existing subsidiaries

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

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations *(continued)*

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

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

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses.

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

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

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

Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments in associates *(continued)*

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

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

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

Revenue recognition

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Construction contracts

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

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

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

Property, plant and equipment

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

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

Depreciation is recognised so as to write off the cost of assets other than construction in progress less their residual value over their estimated useful lives, using the straight-line method, at the following rates per annum:

Buildings	Shorter of useful life of 25 years or the lease terms
Leasehold improvement	Shorter of useful life of 5 years or the lease terms
Plant and machinery	9% to 20%
Furniture, fixtures and equipment	10% to 32.33%
Motor vehicles	10% to 24%

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leasing

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

The Group as lessee

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

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

Leasehold land and building

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

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

Borrowing costs

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

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

Government grants

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Government grants *(continued)*

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

Taxation

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

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

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

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

Financial instruments

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

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

Financial assets

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

Effective interest method

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Loans and receivables

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

Available-for-sale financial assets

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

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

Impairment of financial assets

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

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

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

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

For certain categories of financial asset, such as trade receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 180 days, observable changes in national or local economic conditions that correlate with default on receivables.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets (continued)

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

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

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

Financial liabilities and equity

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

Equity instruments

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity *(continued)*

Convertible bonds

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

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

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

Convertible notes containing both a liability and an equity component

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity *(continued)*

Convertible notes containing both a liability and an equity component (continued)

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

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

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

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

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

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

Other financial liabilities

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

Derivative financial instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Embedded derivatives

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

Financial guarantee contracts

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

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

Derecognition

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

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

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

Intangible assets

Intangible assets acquired separately

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

Intangible assets acquired in a business combination

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets *(continued)*

Intangible assets acquired in a business combination *(continued)*

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

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

Inventories

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

Service concession arrangements

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

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

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

Retirement benefit costs

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

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to directors and employees

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

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

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

4. KEY SOURCE OF ESTIMATION UNCERTAINTY

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

Revenue recognition on construction service under service concession arrangements

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

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

Estimated impairment of amounts due from grantors for contract work

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2014, the carrying amount of amounts due from grantors for contract work is approximately HK$1,402,866,000 (2013: HK$656,882,000). During the years ended 31 December 2014 and 2013, there is no impairment recognised in profit or loss for amounts due from grantors for contract work.

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

As at 31 December 2014, the Group had deposits paid of aggregate carrying amount of approximately HK$50,063,000, net of impairment loss, (2013: HK$158,551,000) that represent advance payments to a third party supplier, 城市建設研究院 (Urban Construction Design & Research Institute*) ("Urban Construction Institute") for construction of infrastructure in service concession arrangements, which is under arbitration proceedings.

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

* *For identification purpose only*

4. KEY SOURCE OF ESTIMATION UNCERTAINTY *(continued)*

Estimated impairment of deposits paid for construction of infrastructure in service concession arrangements *(continued)*

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

As at 31 December 2014, the carrying amount of deposits paid for construction of infrastructure in service concession arrangements, other than Urban Construction Institute, is approximately HK$51,595,000 (2013: HK$63,731,000).

Estimated impairment of property, plant and equipment and intangible assets

If there is any indication of impairment, determining the extent to which property, plant and equipment and intangible assets are impaired requires an estimation of the value in use of the cash-generating units (''CGUs'') to which they have been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. As at 31 December 2014, the carrying amount of property, plant and equipment and intangible assets are approximately HK$118,084,000 and HK$360,210,000 (2013: HK$63,850,000 and HK$21,660,000), respectively.

Estimated impairment of trade receivables

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

5. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debt, which includes borrowings, convertible notes, convertible bonds and warrants disclosed in Notes 31, 32, 33 and 34, respectively, net of cash and cash equivalents, and equity attributable to owners of the Company, comprising issued share capital, reserves and accumulated losses.

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

6. FINANCIAL INSTRUMENTS

6a. Categories of financial instruments

	2014 HK$'000	2013 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**2,141,703**	1,527,652
Financial liabilities		
Amortised cost	**2,028,126**	1,164,624
Embedded derivatives	**–**	149,112

6b. Financial risk management objectives and policies

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

Market risk

Currency risk

Several subsidiaries of the Company have certain bank balances and cash, borrowings, convertible bonds, convertible notes and warrants of the Group are denominated in HK$ and USD which exposes the Group to foreign currency risk. During the year ended 31 December 2014 and 2013, no sales and costs of sales of the Group are denominated in currencies other than the group entity's functional currencies.

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

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

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

6. FINANCIAL INSTRUMENTS *(continued)*

6b. Financial risk management objectives and policies *(continued)*

Market risk *(continued)*

Currency risk *(continued)*

Sensitivity analysis

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

The following table details the Group's sensitivity to a 5% (2013: 5%) increase and decrease in HK$ against RMB. 5% (2013: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% (2013: 5%) change in foreign currency rates. A positive number below indicates an increase in loss of the Group where HK$ strengthens 5% (2013: 5%) against RMB. For a 5% (2013: 5%) weakening of HK$ against RMB, there would be an equal and opposite impact on the loss of the Group, and the balances below would be negative.

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

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to amount due from an associate, fixed-rate borrowings, convertible notes and convertible bonds (see Notes 28, 31, 32 and 33 for details). The Group currently does not enter into any hedging instruments for fair value interest rate risk.

The Group is exposed to cash flow interest rate risk in relation to bank balances and variable-rate borrowings (see Notes 29 and 31). It is the Group's policy to keep its borrowing at floating rate of interests so as to minimise the fair value interest rate risk. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of bank interest rate arising from the bank balances and PRC benchmark loan rate ("PRC Benchmark Loan Rate") arising from the Group's RMB denominated borrowings.

At 31 December 2014, the Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

6. FINANCIAL INSTRUMENTS *(continued)*

6b. Financial risk management objectives and policies *(continued)*

Market risk *(continued)*

Interest rate risk (continued)

Sensitivity analysis

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

At 31 December 2014, if interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's loss for the year would increase/decrease by HK$3,896,000 (2013: increase/decrease by HK$45,000).

Credit risk

As at 31 December 2014, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Group is arising from:

- the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position; and

- the amount of contingent liabilities in relation to financial guarantee issued by the Group as disclosed in Note 44.

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

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

The Group has concentration of credit risk in amounts due from grantors for contract work of approximately HK$1,402,866,000 (2013: HK$656,882,000) as at 31 December 2014 representing guaranteed waste treatment fee to be received from seven (2013: five) grantors in service concession arrangements of waste treatment and waste-to-energy plants. The Group considers the risk is satisfactory as the grantors are government authorities in the PRC with a high reputation.

6. FINANCIAL INSTRUMENTS *(continued)*

6b. Financial risk management objectives and policies *(continued)*

Credit risk *(continued)*

The Group also has concentration of credit risk in deposits paid for construction of infrastructure in service concession arrangements as 49% (2013: 71%) of total deposits was paid to the Group's largest supplier which is subject to arbitration proceedings at the end of the reporting period as detailed in Note 24. The estimated recoverable amount of the deposits of HK$50,063,000 (2013: HK$158,551,000) to the largest supplier, net of impairment loss of approximately RMB89,600,000 (approximately HK$112,000,000) (2013: RMB5,980,000 (approximately HK$7,395,000)), is based on the best estimate of the management of the allowable expenses incurred by the largest supplier with reference to the legal opinion provided by the independent lawyer. The Group considers that the credit risk on the deposit paid after impairment provided is limited (See Note 24). The directors, the associates and the shareholders have no interest in the largest supplier mentioned above.

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

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

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

Liquidity risk

As at 31 December 2014, the Company has net current liabilities of approximately HK$722,820,000. The Company is exposed to liability risk if it is not able to raise sufficient funds to meet its obligations. In the management of liquidity risk, the Company maintains a level of bank balances deemed adequate by the management to finance the Company's operation and mitigate the effects of fluctuation of cash flows.

In preparing the consolidated financial statements, the directors of the Company have assessed the liquidity position and going concern of the Group in light of the fact that the Group incurred a loss of approximately HK$62,529,000 for the year ended 31 December 2014 and had capital commitment of approximately HK$182,515,000 (see Note 42) and other commitment of approximately HK$130,983,000 (see Note 43) as at 31 December 2014. The directors of the Company are satisfied that the Group will have sufficient financial resources to meet its financial obligations as they fall due in the foreseeable future as a substantial shareholder, Beijing Capital (Hong Kong) Limited ("Beijing Capital HK"), a wholly owned subsidiary of a listed company in the People Republic of China ("PRC"), Beijing Capital Co., Ltd., has granted the Group a three-year term facility of RMB1,300,000,000 (approximately HK$1,625,000,000) in March 2015.

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

6. FINANCIAL INSTRUMENTS *(continued)*

6b. Financial risk management objectives and policies *(continued)*

Liquidity risk *(continued)*

Liquidity and interest risk tables

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

	Weighted average interest rate	Repayable on demand HK$'000	3 months to 1 year HK$'000	1 to 2 years HK$'000	2 to 5 years HK$'000	More than 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
2014								
Trade and other payables	–	301,541	–	–	–	–	301,541	301,541
Warrant	–	–	79	–	–	–	79	79
Convertible bonds including embedded derivatives (Note)	22.54%	–	76,889	–	–	–	76,889	63,674
Financial guarantee contract	–	11,891	–	–	–	–	11,891	–
Borrowings								
– Fixed rate	5.68%	200,299	419,750	–	–	–	620,049	584,500
– variable rate	5.25%	2,500	470,527	115,787	416,198	260,086	1,265,098	1,078,332
		516,231	967,245	115,787	416,198	260,086	2,275,547	2,028,126
2013								
Trade and other payables	–	74,155	–	–	–	–	74,155	74,155
Convertible notes (Note)	–	–	16,000	–	–	–	16,000	14,177
Convertible bonds including embedded derivatives (Note)	17.41%	–	100,000	–	–	–	100,000	234,282
Financial guarantee contract	–	15,451	–	–	–	–	15,451	–
Borrowings								
– Fixed rate	5.90%	–	404,229	175,048	–	–	579,277	534,878
– variable rate	6.51%	–	10,746	55,354	230,184	301,953	598,237	456,244
		89,606	530,975	230,402	230,184	301,953	1,383,120	1,313,736

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

6. FINANCIAL INSTRUMENTS *(continued)*

6b. Financial risk management objectives and policies *(continued)*

Liquidity risk *(continued)*

Liquidity and interest risk tables *(continued)*

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

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

6c. Fair value

The fair value of financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

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

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

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

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

7. REVENUE

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

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

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

8. SEGMENT INFORMATION

The Group has been operating with one reportable and operating segment, being the waste treatment and waste-to-energy business. Since there is only one reportable and operating segment, no segment information except for entity-wide disclosure is provided.

The revenue of services is set out in Note 7.

Geographical information

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

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

	Revenue from external customers		Non-current assets	
	2014 HK$'000	2013 HK$'000	2014 HK$'000	2013 HK$'000
Continuing operations				
The PRC (country of domicile)	**963,608**	282,411	**775,222**	510,274
Hong Kong	**–**	–	**126**	828
	963,608	282,411	**775,348**	511,102

Note: Non-current assets excluded financial instruments.

8. SEGMENT INFORMATION *(continued)*

Information about major customers

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

9. OTHER INCOME, GAINS AND LOSSES

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

10. FINANCE COSTS

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

11. LOSS BEFORE TAX

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

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

12. INCOME TAX EXPENSE (CREDIT)

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

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

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

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

12. INCOME TAX EXPENSE (CREDIT) *(continued)*

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

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

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

Details of deferred taxation are disclosed in Note 35.

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

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

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

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

Notes:

(a) Resigned on 6 June 2013.
(b) Retired on 27 June 2013.
(c) Resigned on 2 September 2013.
(d) Appointed on 23 December 2013.
(e) Resigned on 8 August 2014.
(f) Resigned on 27 October 2014.

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

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

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

14. EMPLOYEES' EMOLUMENTS

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

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

Their emoluments are within the following bands:

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

No employees waived or agreed to waive any emoluments for the years ended 31 December 2014 and 2013. No emoluments have been paid to the employees as an inducement to join or upon joining the Group, or as compensation for loss of office.

15. DIVIDENDS

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

16. LOSS PER SHARE

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

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

Number of shares

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

17. PROPERTY, PLANT AND EQUIPMENT

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

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

18. INTANGIBLE ASSETS

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

Notes:

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

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

(c) Technology know-how are license agreements entered into with independent third parties who granted the Group the right to use anaerobic digestion technology in the Group's waste treatment and waste-to-energy business in the PRC have finite useful lives.

* *For identification purpose only*

18. INTANGIBLE ASSETS *(continued)*

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

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

19. GOODWILL

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

20. PREPAID LEASE PAYMENTS

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

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

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

21. AMOUNTS DUE FROM GRANTORS FOR CONTRACT WORK

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

Amounts due from grantors for contract work represent costs incurred by the Group for the construction and operation services rendered under service concession arrangements of waste treatment and waste-to-energy plant in the PRC on a BOT basis, plus attributable profits on the services provided. Revenues and costs relating to the construction phase of the contract are accounted for in accordance with HKAS 11. Revenues and costs relating to the operating phase of the contract are accounted for in accordance with HKAS 18.

Several subsidiaries of the Company entered into service concession arrangements with certain government authorities in the PRC ("Grantors") in respect of their waste treatment and waste-to-energy businesses. These subsidiaries acted as operators in these service concession arrangements to construct waste treatment and waste-to-energy plants on a BOT basis, operate and maintain the waste treatment and waste-to-energy plants at a specified level of serviceability on behalf of the relevant government authorities over the relevant service concession periods. The effective interest rate is ranged from 3.6% to 13.58% during the year ended 31 December 2014 and 2013.

21. AMOUNTS DUE FROM GRANTORS FOR CONTRACT WORK *(continued)*

As at 31 December 2014, the major terms of the Group's significant service concession arrangements are set out as follows:

Name of subsidiary as operator	Name of waste treatment and waste-to-energy plant	Location	Name of grantor	Service concession period	Waste treatment	Electricity generation	Status	Balance as at 31 December 2014 HK$'000	Balance as at 31 December 2013 HK$'000
北京一清百瑪士綠色能源有限公司 (Beijing Yiqing Biomax Green Energy Park Co., Ltd.*) ("BJ Yiqing Biomax")	北京市董村分類綜合處理廠 (Beijing Dongcun Sorting Comprehensive Treatment Plant*) ("Beijing Plant")	Dongcun, Beijing	北京市市政管理委員會 (Beijing Municipal Administration Committee*)	January 2014 to December 2038 (25 years) (Note 3)	930 tonnes (Note 3)	36 million kWh	Under construction (Note 3)	**282,616**	194,358
南昌百瑪士綠色能源有限公司 (Nanchang Biomax Green Energy Co.,Ltd.*) ("NC Biomax GE")	南昌市垃圾焚燒發電廠 (Nanchang Solid Waste Incineration Power Generation Plant*)	Quanling, Nanchang	南昌市市環境管理局 (Nanchang City Environment Administration Bureau*)	27 years after obtaining the approval for commercial operation (Note 2)	1,200 tonnes	131 million kWh	Under construction (Note 4)	**681,006**	254,904
都匀市科林環保有限公司 (Duyun Kelin Environment Company Limited) ("Duyun Kelin*")	都匀市生活垃圾填埋場 (Duyun Municipal Solid Waste Landfill Site*)	Duyun, Guizhou	都匀市人民政府 (Duyun People's Government*)	June 2012 to June 2042 (30 years)	300 tonnes	N/A	Operating	**145,359**	141,914
甕安縣科林環保有限公司 (Weng'an Kelin Environment Company Limited*) ("Weng'an Kelin")	甕安縣生活垃圾填埋場 (Weng'an Municipal Sold Waste Landfill Site*)	Weng'an, Guizhou	甕安縣人民政府 (Weng'an People's Government*)	30 years after obtaining the approval for commercial operation (Note 2)	150 tonnes	N/A	Operating	**58,061**	51,903
惠州廣惠能源有限公司 (Huizhou Guanghui Energy Company Limited*) (Huizhou Guanghui) (Note 1)	惠州市生活垃圾焚燒發電廠 (Huizhou Municipal Solid Waste Incineration Power Generation Plant*)	Gonglian Village, Huizhou	惠州市市容環境衛生管理局 (Huizhou Environmental and Hygiene Control Authority*)	(Note 5)	1,600 tonnes	161 million kWh	Operating	**175,538**	N/A

Notes:

1. The subsidiary was acquired during the year ended 31 December 2014 as detailed in Note 38(a).
2. The subsidiaries have not yet obtained approval for commercial operation at 31 December 2014.

* *For identification purpose only*

21. AMOUNTS DUE FROM GRANTORS FOR CONTRACT WORK *(continued)*

Notes: *(continued)*

3. On 25 July 2013, the Company received a notice named "Notice of Accelerating the Construction of Dongcun Waste Sorting Comprehensive Treatment Plant" ("Notice") dated on 23 July 2013 from Beijing Municipal Administration Committee in relation to the amendments of the operational terms and conditions of Beijing Plant, in which the Group currently owns 60% interest. The Notice states that (i) the commencement of the concessionary period will be changed from 31 December 2008 to 1 January 2014 while the concessionary period will be ended at 31 December 2038 instead of 31 December 2034 as stated in the original concessionary agreement; (ii) the minimum guaranteed volume of municipal waste will increase from 360 tonnes to 500 tonnes per day; and (iii) the waste treatment capacity will increase from 650 tonnes per day to 930 tonnes per day.
4. The waste treatment and waste-to-energy plant has started trail run after the year ended 31 December 2014.
5. Under the cooperation agreement signed on 3 August 2001, the existing plant has a service concession period for 27 years. A new cooperation agreement in respect of the construction and operation of a new waste treatment plant has been signed on 20 August 2013, superseding the one signed on 3 August 2001. Pursuant to the new cooperation agreement, the existing waste treatment plant will continue to operate not more than three years following the signing of the new cooperation agreement, by then it will be demolished and replaced by the new treatment plant for a term of 30 years.

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

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

During the operation phase of the respective service concession periods, the Group will receive guaranteed receipts of waste treatment fee from the grantors calculated by multiplying the minimum level of municipal waste to be processed per day at a pre-determined waste treatment fee per tonne as specified in all service concession agreements. In addition, for some service concession arrangements, the Group has the right to charge on-grid electricity tariff from users after commencement of operation phase of the waste-to-energy plants.

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

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

* *For identification purpose only*

21. AMOUNTS DUE FROM GRANTORS FOR CONTRACT WORK *(continued)*

Provision for penalty charge is based on penalty clause stated in the service concession agreement of Beijing Plant at RMB350,000 per week starting from the original commencement date of operation in January 2009 and up to the year ended 31 December 2012, provision of penalty of approximately HK$101,886,000 was recognised. Pursuant to the Notice, the concessionary period is now commencing from January 2014. After seeking legal opinion provided by an independent lawyer, the directors of the Company considers that it is not likely for the grantor to charge the penalty on the Company and therefore provision made in prior years of approximately HK$103,409,000 are fully reversed during the year ended 31 December 2013. No such reversal of provision was made for the year ended 31 December 2014. Movement of the provision for penalty charge in construction services is detailed in Note 30(c).

Pursuant to the service concession agreements, the Group is required to surrender these waste treatment and waste-to-energy plants to the grantors at a specified level of serviceability at the end of the respective service concession periods. As at 31 December 2014, provision of approximately HK$1,000,000 (2013: approximately HK$1,025,000) has been recognised in respect of the contractual obligations to maintain or restore these waste treatment and waste-to-energy plants to specified conditions.

22. AVAILABLE-FOR-SALE INVESTMENT

	2014 ***HK$'000***	2013 *HK$'000*
COST		
Unlisted securities		
– Equity securities in the PRC (Note)	**34,700**	34,700
– Deemed capital contribution for equity securities in the PRC	**22,144**	22,144
	56,844	56,844
IMPAIRMENT		
At 1 January and 31 December	**(56,844)**	(56,844)
CARRYING VALUES	**–**	–

Note:

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

Included in unlisted equity securities in the PRC as at 31 December 2014 and 2013 is the Group's investment in Shanghai Biomax Green Energy Park Company Limited* ("SH Biomax GEP") 上海百瑪士綠色能源有限公司, a sino-foreign-owned joint venture enterprise established in the PRC, which was acquired on acquisition of Smartview Investment Holdings Limited ("Smartview") in in 2009. SH Biomax GEP operates a waste treatment and waste-to-energy plant in Shanghai, the PRC on a build-own-operate basis. The investment represents 33.8% equity interest of SH Biomax GEP. Such investment is a passive investment as 上海振環實業總公司 (Shanghai Zhen Huan Industrial Corporation*), a major shareholder of SH Biomax GEP with 37% equity interest has the right to appoint all the directors to govern the financial and operating policies of SH Biomax GEP. In addition, the Group has surrendered all its voting rights in shareholders' meetings of SH Biomax GEP to the major shareholder under a contractual arrangement with the major shareholder. Accordingly, the directors of the Company considered that the Group has no significant influence over the financial and operating policy decision in SH Biomax GEP and hence the investment is accounted for as available-for-sale investment rather than as an associate.

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

* *For identification purpose only*

23. INTEREST IN AN ASSOCIATE

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

At 31 December 2014, the Group held approximately 46% (2013: 46%) equity interest in 深圳粵能環保再生能源有限公司 (Shenzhen Yueneng Environmental Recycling Energy Limited*) ("SZ Yueneng"), a company established in the PRC. SZ Yueneng operates a waste treatment and waste-to-energy plant in Shenzhen, the PRC on a BOT basis.

Summarised financial information of an associate

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

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

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

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

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

* *For identification purpose only*

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

The amount represents advance payments to third party suppliers for purchase of materials and equipment, which have not yet been delivered to the Group at the end of the reporting period, for the construction of waste treatment and waste-to-energy plants in the PRC under service concession arrangements. Included in the deposits paid balance is advance payment to a third party supplier, Urban Construction Institute, with aggregate carrying amount of approximately HK$50,063,000, net of impairment loss (2013: HK$158,551,000). The Group has submitted a dispute with Urban Construction Institute to an arbitration committee, 南昌仲裁委員會 (Nanchang Arbitration Committee*) during the year ended 31 December 2012.

During the year ended 31 December 2013, the Nanchang Arbitration Committee issued the first order which determined that the contract entered into between the Group and Urban Construction Institute was invalid. In accordance with the legal opinion provided by a firm of independent lawyers not connected to the Group, the amount should be refunded to the Group taking into account the outcome of the first order. During the year ended 31 December 2013, Urban Construction Institute submitted a restitution to Nanchang Arbitration Committee for RMB5,980,000 (approximately HK$7,667,000) as a compensation of the expenses incurred.

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

25. INVENTORIES

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

* *For identification purpose only*

26. TRADE RECEIVABLES AND DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

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

(a) Trade receivables

The Group allows an average credit period normally 180 days to its trade customers for both years.

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

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

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

26. TRADE RECEIVABLES AND DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES *(continued)*

(a) Trade receivables *(continued)*

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

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

Aging of trade receivables which are past due but not impaired

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

Movement in the allowance for doubtful debts

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

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of approximately HK$8,741,000 (2013: HK$8,452,000) that are considered irrecoverable by the management after consideration of the credit quality of those individual customers based on the amounts subsequently settled after year end, the ongoing relationship with the Group and the aging of these receivables. The Group does not hold any collateral over these balances.

* *For identification purpose only*

26. TRADE RECEIVABLES AND DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES *(continued)*

(b) Advances to suppliers

During the year ended 31 December 2014, impairment loss of HK$6,023,000 (2013: HK$11,364,000) was recognised in profit or loss in relation to an advance that has been overdue for more than 360 days and the recovery of such advance is not expected by the directors of the Company taking into account of the financial situation of the supplier.

(c) Advance to Huizhou Guanghui

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

(d) Deposit for acquisition

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

As of 31 December 2013, HK$10,256,000 was paid as part of the consideration for the acquisition of equity interests of Huizhou Guanghui based on the acquisition agreement dated on 9 August 2013 (Note 38(a)). The acquisition has been completed during the year ended 31 December 2014.

27. AMOUNT DUE FROM AN INVESTEE

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

Note:

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

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

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

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

* *For identification purpose only*

28. AMOUNT DUE FROM AN ASSOCIATE

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

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

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

29. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

Bank balances, represent saving accounts and deposits, carry interest at market saving rates which range from 0.01% to 0.40% (2013: 0.01% to 0.40%) per annum.

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

30. TRADE PAYABLES AND OTHER PAYABLES AND ACCRUALS

(a) *Trade payables*

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

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

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

30. TRADE PAYABLES AND OTHER PAYABLES AND ACCRUALS *(continued)*

(b) *Other payables and accruals*

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

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

(c) *Provisions*

	Expected loss relating to service concession arrangements *HK$'000*	Provision for penalty charges *HK$'000*	Provision for maintenance *HK$'000*	Total *HK$'000*
At 1 January 2013	90,088	101,886	995	192,969
Reversals	(83,333)	(103,409)	–	(186,742)
Exchange realignment	1,490	1,523	30	3,043
At 31 December 2013	8,245	–	1,025	9,270
Exchange realignment	(207)	–	(25)	(232)
At 31 December 2014	8,038	–	1,000	9,038

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

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

30. TRADE PAYABLES AND OTHER PAYABLES AND ACCRUALS *(continued)*

(c) Provisions (continued)

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

(d) Deferred income

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

31. BORROWINGS

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

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

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

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

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

During the year ended 31 December 2012, the Group entered into three fixed-rate loan agreements ("Original Loan Agreements") with Beijing Capital (HK) of RMB40,000,000, RMB21,000,000 and RMB36,000,000 that will be due in December 2012, August 2013 and August 2013 respectively. The balance is unsecured and carries interest at fixed rate of 7.2%, 6.9% and 6.9% per annum respectively. In November 2012, the Group entered into three supplementary loan agreements which were approved by the independent shareholders in December 2012 (i) to extend the respective term of the Original Loan Agreements for another 24 months and (ii) the loans under the

31. BORROWINGS *(continued)*

Original Loan Agreements are secured by the entire equity interest of a subsidiary held by the Group. The three fixed-rate loan amounted to RMB97,000,000 (approximately HK$121,250,000) as at 31 December 2014 will be repayable on demand as the Group and Beijing Capital (HK) have mutually agreed to extend the loan until Beijing Capital (HK) demands for repayment.

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

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

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

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

31. BORROWINGS *(continued)*

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

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

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

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

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

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

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

31. BORROWINGS *(continued)*

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

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

32. CONVERTIBLE NOTES

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

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

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

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

The conversion price for the Convertible Notes was adjusted successively to HK$1.19 per share on 13 April 2010, HK$1.18 per share on 14 April 2010 and HK$1.13 per share on 23 May 2011, upon completion of the placing of shares, and was adjusted successively to HK$0.85 per share on 8 July 2013 upon completion of the rights issue (Note 36(a)).

32. CONVERTIBLE NOTES *(continued)*

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

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

The Convertible Notes contain two components, liability and equity elements. The equity element is presented in equity heading "convertible notes equity reserve". The effective interest rate of the liability component for Convertible Notes is 13.699% per annum.

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

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

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

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

33. CONVERTIBLE BONDS/EMBEDDED DERIVATIVES

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

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

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

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

The conversion price for the Convertible Bonds I was adjusted to HK$2.4 per share on 23 May 2011 upon completion of the placing of shares.

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

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

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

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

33. CONVERTIBLE BONDS/EMBEDDED DERIVATIVES *(continued)*

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

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

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

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

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

33. CONVERTIBLE BONDS/EMBEDDED DERIVATIVES *(continued)*

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

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

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

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

33. CONVERTIBLE BONDS/EMBEDDED DERIVATIVES *(continued)*

The fair values of the embedded derivatives at 29 December 2014 (date of amendment of the terms and conditions of Convertible Bonds II) and 31 December 2013 were determined by reference to a valuation conducted by a firm of independent valuers using Binomial Option Pricing Model. The inputs and methodology used for the calculation of the fair values of the embedded derivatives were as follows:

Convertible Bonds I	**At redemption**
Share price	HK$0.265
Risk-free rate	0.214%
Time to maturity	1.79 years
Dividend yield	0%
Volatility	69.56%

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

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

34. WARRANTS

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

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

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

34. WARRANTS *(continued)*

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

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

35. DEFERRED TAXATION

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

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

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

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

35. DEFERRED TAXATION *(continued)*

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

At the end of the reporting period, the Group has deductible temporary differences of approximately HK$306,276,000 (2013: HK$195,335,000) in respect of impairment loss recognised on trade receivables, deposits, prepayments and other receivables. No deferred tax assets has been recognised in relation to such deductible temporary differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

36. SHARE CAPITAL

	Number of shares	Amount *HK$'000*
Ordinary shares of HK$0.1 each		
Authorised:		
At 1 January 2013, 31 December 2013 and 31 December 2014	6,000,000,000	600,000
Issued and fully paid:		
At 1 January 2013	1,862,257,039	186,226
Issue of shares under rights issue (Note (a))	2,793,385,557	279,338
At 31 December 2013	4,655,642,596	465,564
Issue of shares under redemption of convertible bond (Note (b))	75,862,069	7,586
At 31 December 2014	4,731,504,665	473,150

Note:

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

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

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

37. NON-CONTROLLING INTERESTS

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

38. ACQUISITION OF SUBSIDIARIES

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

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

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

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

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

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

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

* *For identification purpose only*

38. ACQUISITION OF SUBSIDIARIES *(continued)*

(a) *(continued)*

Non-controlling interest

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

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

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

If the acquisitions had been completed on 1 January 2014, total group loss for the year ended 31 December 2014 would have been HK$56,085,000. 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 2014, nor is it intended to be a projection of future results.

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

* *For identification purpose only*

38. ACQUISITION OF SUBSIDIARIES *(continued)*

(b) *(continued)*

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

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

Goodwill arising on acquisition

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

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

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

Non-controlling interest

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

38. ACQUISITION OF SUBSIDIARIES *(continued)*

(b) *(continued)*

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

If the acquisitions had been completed on 1 January 2013, total group revenue for the year would have been HK$473,810,000, and profit for the year ended 31 December 2013 would have been HK$5,236,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of the operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2013, nor is it intended to be a projection of future results.

39. DISPOSAL OF SUBSIDIARIES

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

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

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

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

40. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2014, construction revenue of approximately HK$505,360,000 (2013: HK$202,807,000) was recognised in return for amounts due from grantors for contract work.

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

41. OPERATING LEASE COMMITMENT

The Group as lessee

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

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

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

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

42. CAPITAL COMMITMENT

	2014 *HK$'000*	2013 *HK$'000*
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of – construction work under service concession arrangements	**182,515**	400,879

43. OTHER COMMITMENT

On 18 October 2011, a wholly owned subsidiary of the Company entered into a tender agreement with Guangzhou City Management Committee, a governmental authority and acted together with Guangdong Environmental Engineering & Equipment General Corporation to set up a project company with a registered capital of not less than RMB97,870,000 (approximately HK$122,338,000) which is responsible for building and operating the Guangzhou Likeng Waste Treatment project under a BOT arrangement with a concessionary period of 25 years. 30% of the registered capital of the project company will be contributed by a wholly owned subsidiary of the Company. The tender agreement is effective at 31 December 2014. The capital of the project company has yet to be registered at 31 December 2014.

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

44. CONTINGENT LIABILITIES

At 31 December 2014, the Group provided guarantees of RMB9,513,000 (approximately HK$11,891,000) (2013: RMB12,052,000 (approximately HK$15,451,000)) to a bank in respect of banking facilities granted to an associate. The directors of the Company consider that the fair value of the financial guarantees at date of inception and at the end of the reporting period is insignificant.

45. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") for all qualifying employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees.

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

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

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

46. SHARE OPTION SCHEME

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

At 31 December 2014, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 2,703,288 (2013: 2,703,288), representing 0.06% (2013: 0.06%) of the shares of the Company in issue at that date. The maximum number of shares which may be issued upon exercise of all outstanding share options must not exceed 30% of the issued share capital from time to time.

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

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

46. SHARE OPTION SCHEME *(continued)*

Details of specific categories of options are as follows:

Date of grant	Number of options	Adjusted number of options (Note)	Vesting period	Exercise period	Exercise price	Adjusted exercise price (Note)
18.8.2008	360,000	408,609	Nil	18.8.2008 to 17.8.2018	HK$1.57	HK$1.3833
	540,000	612,915	18.8.2008 to 17.8.2009	18.8.2009 to 17.8.2018	HK$1.57	HK$1.3833
	900,000	1,021,523	18.8.2008 to 17.8.2010	18.8.2010 to 17.8.2018	HK$1.57	HK$1.3833
6.9.2010	14,300,000	16,107,019	Nil	6.9.2010 to 5.9.2015	HK$0.501	HK$0.4448

Note: The number of share options and exercise price have been adjusted upon the completion of the rights issue of shares of the Company with effect from 3 July 2013.

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

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

46. SHARE OPTION SCHEME *(continued)*

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

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

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

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

No expense is recognised for the year ended 31 December 2014 and 2013 in relation to share options granted by the Company.

47. RELATED PARTY TRANSACTIONS

During the year, in addition to the balances and transactions disclosed in Notes 28, 31, 32 and 33, the Group entered into the following significant transactions with related parties:

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

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

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

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

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

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

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

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

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

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

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

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

47. 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	2014 *HK$'000*	2013 *HK$'000*
Associate:			
SZ Yueneng	Interest income (Note)	**1,264**	1,124
	Dividend income	**9,124**	–

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

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

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

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

48. PRINCIPAL SUBSIDIARIES

Details of the Group's principal subsidiaries at 31 December 2014 and 2013 are as follows:

Name of subsidiaries	Place of incorporation/ registration	Issued and fully paid up share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital indirectly held by the Company 2014	2013	Principal activities
Biomax Environmental Technology Limited	Hong Kong	Ordinary shares HK$100	**100%**	100%	Investment holding
Biomax Environmental Technology Germany GmbH (Note a)	Germany	Registered capital EUR25,000	**100%**	100%	Provision of procurement and consulting services
Win Concept Enterprises Limited	Hong Kong	Ordinary shares HK$100	**100%**	100%	Provision of technical services
NC Biomax GE (Note a)	PRC	Registered capital RMB209,000,000 (2013: RMB185,760,000)	**100%**	100%	Production and operating of factories for municipal solid waste treatment
Yangzhou Capital Investment Limited* 揚州首創投資有限公司 (Formerly known as Yangzhou Capital Solid Investment Limited* 揚州首拓投資有限公司) (Note a)	PRC	Registered capital US$55,000,000 (2013: US$40,000,000)	**100%**	100%	Provision of technical services
Beijing Capital Environment Investment Limited* 北京首創環境投資有限公司 (Formerly known as Beijing Capital Solid Environmental Energy Investment Limited* 北京首拓環能投資有限公司) (Note a)	PRC	Registered capital RMB300,000,000	**100%**	100%	Provision of technical services
Biomax Environmental Technology (Shanghai) Company Limited* 百瑪士環保科技(上海)有限公司 (Note a)	PRC	Registered capital US$5,400,000	**100%**	100%	Provision of consulting services
BJ Yiqing Biomax (Note a)	PRC	Registered capital RMB93,689,400 (2013: RMB80,845,000)	**60%**	60%	Municipal solid waste recycling treatment

* *For identification purpose only*

48. PRINCIPAL SUBSIDIARIES *(continued)*

Name of subsidiaries	Place of incorporation/ registration	Issued and fully paid up share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital indirectly held by the Company 2014	2013	Principal activities
Biomax Environment Technology (Beijing) Company Limited* 百瑪士環保科技(北京)有限公司 (Note a)	PRC	Registered capital US$400,000	**100%**	100%	Provision of consulting services
Duyun Kelin (Note a)	PRC	Registered capital RMB40,000,000	**91.75%**	91.75%	Municipal solid waste treatment
Weng'an Kelin (Note a)	PRC	Registered capital RMB21,000,000	**80%**	80%	Municipal solid waste treatment
Jiangsu Subei (Note b)	PRC	Registered capital RMB216,000,000	**55%**	55%	Recycle and disassemble waste electrical and electronic equipment
Xinxiang Capital Solid (Note b)	PRC	Registered capital RMB20,000,000	**70%**	60%	Production and operating of factories for municipal solid waste treatment
Anhui Xin'gang (Note c)	PRC	Registered capital RMB80,000,000	**95%**	–	Recycle and disassemble waste electrical and electronic equipment
Huizhou Guanghui (Note c)	PRC	Registered capital RMB245,600,000	**97.85%**	–	Waste treatment and waste-to-energy generation project
Huludao Kangte (Note c)	PRC	Registered capital RMB40,000,000	**100%**	–	Municipal solid waste treatment

* *For identification purpose only*

48. PRINCIPAL SUBSIDIARIES *(continued)*

Notes:

(a) These companies are wholly owned foreign enterprises.

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

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

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

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

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

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

48. PRINCIPAL SUBSIDIARIES *(continued)*

BJ Yiqing Biomax

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

48. PRINCIPAL SUBSIDIARIES *(continued)*

BJ Yiqing Biomax *(continued)*

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

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

48. PRINCIPAL SUBSIDIARIES *(continued)*

Jiangsu Subei

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

48. PRINCIPAL SUBSIDIARIES *(continued)*

Jiangsu Subei *(continued)*

	2014 HK$'000	2013 HK$'000
Revenue	287,841	–
Expenses	(283,437)	–
Profit for the year	4,404	–
Profit attributable to owners of the Company	2,422	–
Profit attributable to the non-controlling interests	1,982	–
Profit for the year	4,404	–
Other comprehensive income attributable to owners of the Company	441	–
Other comprehensive income attributable to the non-controlling interests	360	–
Other comprehensive income for the year	801	–
Total comprehensive income attributable to owners of the Company	2,863	–
Total comprehensive income attributable to the non-controlling interests	2,342	–
Total comprehensive income for the year	5,205	–
Net cash inflows from operating activities	9,150	–
Net cash outflows from financing activities	(129,454)	–
Net cash outflows from investing activities	(10,730)	–
Net cash outflows	(131,034)	–

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

49 EVENT AFTER THE REPORTING PERIOD

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

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

50 SUMMARY FINANCIAL INFORMATION OF THE COMPANY

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

FINANCIAL SUMMARY

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

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

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