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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 the Cayman Islands with limited liability)

(Stock code: 3989)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2014

The board of directors (the "Board") of Capital Environment Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2014.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2014

		Six months ended 30 June	
		2014	2013
	NOTES	***HK$'000***	*HK$'000*
		(unaudited)	(unaudited)
Revenue	*4*	**273,202**	33,820
Cost of sales		**(224,644)**	(19,799)
Gross profit		**48,558**	14,021
Other income, gains and losses	*5*	**581**	(14,646)
Administrative expenses		**(46,839)**	(32,055)
Gain on fair value change of embedded derivatives	*18*	**16,150**	10,329
Loss on fair value change of warrants	*19*	**(33,298)**	–
Share of results of an associate		**6,561**	6,964
Finance costs	*6*	**(25,180)**	(36,342)

	NOTES	Six months ended 30 June	
		2014	2013
	NOTES	***HK$'000***	*HK$'000*
		(unaudited)	(unaudited)
Loss before tax		**(33,467)**	(51,729)
Income tax credit	*7*	**200**	1,217
Loss for the period	*8*	**(33,267)**	(50,512)
Other comprehensive (expense) income:			
Items that will not be reclassified to profit or loss:			
Exchange differences on translation:			
Exchange difference arising during the period		**(18,344)**	4,183
Exchange difference arising from an associate during the period		**(3,603)**	1,738
Other comprehensive (expense) income for the period		**(21,947)**	5,921
Total comprehensive expense for the period		**(55,214)**	(44,591)
(Loss) profit for the period attributable to:			
Owners of the Company		**(39,913)**	(48,376)
Non-controlling interests		**6,646**	(2,136)
		(33,267)	(50,512)
Total comprehensive (expense) income for the period attributable to:			
Owners of the Company		**(59,985)**	(42,098)
Non-controlling interests		**4,771**	(2,493)
		(55,214)	(44,591)
Loss per share	*10*		
Basic		**HK(0.86) cents**	HK(2.46) cents
Diluted		**HK(0.86) cents**	HK(2.46) cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2014

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

	NOTES	30 June 2014 HK$'000 (unaudited)	31 December 2013 HK$'000 (audited)
Non-current liabilities			
Deferred income	*15(d)*	**42,670**	–
Borrowings	*17*	**847,652**	607,077
Deferred tax liabilities		**12,047**	6,903
		902,369	613,980
		628,615	679,504
Capital and reserves			
Share capital		**465,564**	465,564
Reserves		**(43,801)**	16,184
Equity attributable to owners of the Company		**421,763**	481,748
Non-controlling interests		**206,852**	197,756
		628,615	679,504

Note:

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

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

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

Application of new and revised HKFRSs effective in the current period

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

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

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

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

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

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

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

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[4]
HKFRS 15	Revenue from Contracts with Customers[5]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[1]
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations[4]
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[4]
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010 – 2012 Cycle[3]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011 – 2013 Cycle[2]

1 Available for application – the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalized.
2 Effective for annual periods beginning on or after 1 July 2014.
3 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions.
4 Effective for annual periods beginning on or after 1 January 2016.
5 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016.
6 Effective for first annual HKFRS financial statements beginning on or after 1 January 2017.

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

3. SEGMENT INFORMATION

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

4. REVENUE

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

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

Note:

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

5. OTHER INCOME, GAIN AND LOSSES

	Six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Bank interest income	**403**	359
Interest income on amount due from an associate	**501**	727
Total interest income	**904**	1,086
Gain on redemption of convertible bonds	**–**	3,217
Impairment loss recognised in respect of trade receivables *(Note 13)*	**–**	(7,536)
Loss on disposal of fixed assets	**(486)**	–
Provision for penalty charges in relation to construction of waste-to-energy plant	**–**	(11,418)
Others	**163**	5
	581	(14,646)

6. FINANCE COSTS

	Six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Interests on:		
Borrowings	**17,192**	8,863
Convertible bonds *(Note 18)*	**7,057**	17,592
Convertible notes	**931**	9,887
	25,180	36,342

7. INCOME TAX CREDIT

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

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

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

8. LOSS FOR THE PERIOD

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

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

Note:

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

9. DIVIDEND

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

10. LOSS PER SHARE

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

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

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

11. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

The amount represented advance payments to third party suppliers for purchase of materials and equipment, which have not yet been delivered to the Group at the end of the reporting period, for the construction of waste treatment and waste-to-energy plants in the PRC under service concession arrangements. Included in the deposits paid balance is advance payment to a third party supplier, 城市建設研究院 (Urban Construction Design & Research Institute*) ("Urban Construction Institute"), with aggregate carrying amount of approximately HK$154,588,000 (31 December 2013: HK$158,551,000). The Group has submitted a dispute with Urban Construction Institute to an arbitration committee, 南昌仲裁委員會 (Nanchang Arbitration Committee*), during the year ended 31 December 2012.

* *For identification purpose only*

In 2013, the Nanchang Arbitration Committee issued the first order which determined that the contract entered into between the Group and Urban Construction Institute was invalid. In accordance with the legal opinion provided by a firm of independent lawyers not connected to the Group, the amount, net of the estimated allowable expenses incurred by Urban Construction Institute of approximately RMB5,980,000 (approximately HK$7,475,000) (31 December 2013: RMB5,980,000 (approximately HK$7,667,000)), should be refunded to the Group.

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

13. TRADE RECEIVABLES

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

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

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

As at 30 June 2014, included in the Group's trade receivable balance is government subsidies provided by the PRC government for treatment of certain waste electric and electronic products with an aggregate carrying amount of HK$82,117,000 (as at 31 December 2013: HK$152,128,000), which are past due as at the reporting date for which the Company has not provided for impairment loss. The Group does not hold any collateral over these balances. In the opinion of the directors of the Company, the credit risk on these balances is limited because the customer is a state-owned enterprise.

During the six months ended 30 June 2013, an impairment loss of approximately HK$7,536,000 in respect of trade receivable due from 北京市大興區政府採購中心 (Beijing Da Xing Government Procurement Center*) was recognised in profit or loss after consideration of the credit quality of this individual customer based on the amounts subsequently settled after year end, the ongoing relationship with the Group and the aging of this receivable. No impairment loss was recognised during the six months ended 30 June 2014.

14. AMOUNTS DUE FROM GRANTORS FOR CONTRACT WORK

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

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

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

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

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

Pursuant to the service concession agreements, the Group is required to surrender these waste treatment and waste-to-energy plants to the grantors at a specified level of serviceability at the end of the respective service concession periods. As at 30 June 2014, provision of approximately HK$1,000,000 (as at 31 December 2013: HK$1,025,000) (see Note 15(c)) has been recognised in respect of the contractual obligations to maintain or restore these waste treatment and waste-to-energy plants to specified conditions.

* *For identification purpose only*

15. TRADE PAYABLES/OTHER PAYABLES AND ACCRUALS/PROVISIONS

(a) Trade payables

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

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

(b) Other payables and accruals

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

(c) Provisions

The amounts mainly represented expected loss relating to service concession arrangements of Beijing Dongcun Sorting Comprehensive Treatment Plant of approximately HK8,039,000 (2013: HK$$8,245,000) and provision for maintenance of approximately HK$1,000,000 (2013: HK$1,025,000).

(d) Deferred Income

During the six months ended 30 June 2014, 南昌百瑪士綠色能源有限公司 (Nanchang Biomax Green Energy Co., Ltd*), a subsidiary of the Company, received a government subsidy for its capital expenditure and expansion on the waste treatment and waste-to-energy plant. As at 30 June 2014, the plant was still under construction and the government subsidy was therefore recognised as deferred income and would be amortised over the concession period when the plant commences its operation.

* *For identification purpose only*

16. INVENTORIES

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

17. BORROWINGS

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

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

(ii) The Group entered into a fixed-rate long-term loan agreement of HK$150,000,000 with Beijing Capital (HK) during the six months ended 30 June 2014. The loan will be matured in September 2015. The balance is secured by the equity interest of a subsidiary held by the Group and carries interest at fixed rate of 5.50% per annum.

(iii) The Group entered into a fixed-rate short-term loan agreement of US$8,000,000 (approximately HK$61,912,000) with Beijing Capital (HK) during the six months ended 30 June 2014. The loan will be matured in September 2014. The balance is unsecured and carries interest at a fixed rate of 5.50% per annum.

(iv) The Group entered into a variable-rate loan agreement of approximately HK$61,790,000 (RMB49,432,000) with Industrial and Commercial Bank of China, a non-related party of the Group, for operating purpose. The loan is repayable in nine years paid quarterly starting from April 2015. The balance is secured by the BOT contract that gives right to the Group to operate the waste treatment project in Beijing and carries interest at PRC benchmark loan rate per annum.

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

18. CONVERTIBLE BONDS/EMBEDDED DERIVATIVES

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

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

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

The fair values of the embedded derivatives at 31 December 2013 and 30 June 2014 for the convertible bonds were determined by reference to a valuation conducted by a firm of independent valuers using Binomial Option Pricing Model. The inputs and methodology used for the calculation of the fair values of the embedded derivatives were as follows:

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

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

19. WARRANTS

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

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

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

The fair value of the Warrants was remeasured at the end of the reporting period at HK$37,738,000 and loss of HK$33,298,000 arising from the change in fair value was charged in the statement of profit or loss during the six months ended 30 June 2014.

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

BUSINESS REVIEW

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

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

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

BUSINESS PROSPECTS

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

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

The Nanchang Solid Waste Incineration Power Generation Plant ("Nanchang Plant") located in Nanchang Quanling continues to be under construction as at 30 June 2014. It is progressing in line with plan generally with stable construction, and is expected to enter into the trial run stage at the end of 2014. The Nanchang Plant is one of the representative projects that marks the high starting point of the Group, and it, for the first time, helped build up a whole-chain treatment system, integrating waste receiving and storage system, waste incineration system, residual heat power generation boiler system, flue gas purification system, leachate treatment system, ash residue removal system and so on. The plant is designed to generate a maximum amount of energy, while reducing waste to the greatest degree. In the operation of the plant, the pollutants such as dioxins and heavy metals could be efficiently removed, as the heavily polluted water produced by the garbage power plant will be fully retreated, realizing harmless target. In addition, the resulting waste residual can be reused by making it into products, such as ceramic tile.

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

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

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

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

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

The Group will further consolidate and improve its existing businesses and technologies, constantly seeking projects with growth potential and good opportunities for acquisitions and mergers, thereby making continuous contribution to the construction of beautiful China and global environmental protection. The Group is on target for getting three to four waste-to-energy projects per year in the future years. As at 30 June 2014, the Group is actively proposing and negotiating investments in four to five waste treatment projects by way of tender or acquisition. The Group will consider several sources of funding to finance the future investments, including equity financing, debt financing, bank loans and/or shareholders' loans.

FINANCIAL REVIEW

Overview

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

Waste Treatment and Waste-to-Energy Business

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

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

Administrative Expenses

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

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

FINANCE COSTS

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

Financial Position

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

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

Financial Resources

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

Borrowings

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

FOREIGN EXCHANGE EXPOSURE

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

CHARGES ON ASSETS

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

CAPITAL COMMITMENT

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

CONTINGENT LIABILITIES

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

EMPLOYMENT INFORMATION

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

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

INTERIM DIVIDEND

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

DIRECTORS' SECURITIES TRANSACTIONS

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

CORPORATE GOVERNANCE PRACTICES

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

The Company has complied with all the code provisions set out in the Corporate Governance Code contained in Appendix 14 (the "Code") of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") during the period under review.

AUDIT COMMITTEE

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

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

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement will be published on both the websites of the Company (www.cehl.com.hk) and of the Stock Exchange of Hong Kong Limited (www.hkexnews.hk). The interim report of the Company for the six months ended 30 June 2014 will be dispatched to shareholders and published on the aforesaid websites in due course.

By order of the Board of
Capital Environment Holdings Limited
Yu Changjian
Chairman

Hong Kong, 8 August 2014

As at the date of this announcement, the Board comprises five executive directors, namely Mr. Yu Changjian, Mr. Cao Guoxian, Mr. Liu Xiaoguang, Mr. Xue Huixuan and Mr. Shen Jianping; and three independent non-executive directors; namely, Mr. Pao Ping Wing, Mr. Cheng Kai Tai, Allen and Ms. Chan Yee Wah, Eva.