



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

2018 中期報告
INTERIM REPORT



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Ms. Zhang Meng (*Chairlady, redesignated as Chairlady on 20 April 2018*)
Mr. Cao Guoxian (*Chief Executive Officer*)
Mr. Cheng Jialin
Ms. Hao Chunmei (*appointed on 20 April 2018*)

Independent Non-executive Directors

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

COMMITTEES

Audit Committee

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

Nomination Committee

Ms. Zhang Meng
(*Chairlady, appointed on 20 April 2018*)
Mr. Pao Ping Wing
Mr. Cheng Kai Tai, Allen
Dr. Chan Yee Wah, Eva

Remuneration Committee

Mr. Pao Ping Wing (*Chairman*)
Mr. Cheng Kai Tai, Allen
Ms. Zhang Meng (*appointed on 20 April 2018*)

COMPANY SECRETARY

Ms. Wong Bing Ni

AUTHORIZED REPRESENTATIVES

Ms. Zhang Meng (*appointed on 20 April 2018*)
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

Ernst & Young
Certified Public Accountants

LEGAL ADVISERS

Conyers Dill and Pearman
Jun He Law Offices

PRINCIPAL BANKERS

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

SHARE REGISTRARS AND TRANSFER OFFICES

Principal Registrar in Cayman Islands

SMP Partners (Cayman) Limited
3rd Floor, Royal Bank House
24 Shedden Road, P.O. Box 1586
Grand Cayman KY1-1110
Cayman Islands

Branch Registrar in Hong Kong

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

CORPORATE WEBSITE

www.cehl.com.hk

STOCK CODE

03989

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND FINANCIAL REVIEW

Business Review and Prospects

During the first half of 2018, the risk of high uncertainty of the global economy persisted in the world's unsettled financial market. With spiraling trade tensions between the PRC and the United States, the United States repeatedly declared imposition of tariffs on Chinese exports and infringement of intellectual property rights in the PRC. The escalating trade frictions between the PRC and the United States obviously intensified caution in the market, and all global economic indicators including stock market and bond market took a sharp turn for the worse, eroding investor confidence again. As an important engine of the global economy, the PRC faced an extremely complicated and tough environment at home and abroad. Still, the national economy continued to be stable with good momentum for growth, with further progress in structural adjustment, replacement of old drivers with new drivers and steady improvement in quality and benefit. While the economy experienced stable development, the PRC actively promoted the development of new sources of economic growth and made efforts to develop green economy into a new driver for its future economic change and environmentally friendly and sustainable development.

The development of green economy into the main economic engine continuously brought about opportunities for the thriving development of the environmental protection industry in the PRC. The state raised ecological civilization construction to an unprecedented level, with unprecedented support from the central and local governments, demonstrating the determination of the central government to tackle environmental protection issues. Moreover, green environmental protection was urged to be in equal importance of strategic levels with issues of society and livelihood, which was beneficial to "stabilize growth, adjust structure, benefit the people", while at the same time it matched well with the direction of "deepening supply-side reform". Therefore, we believe that the stepping up of policy support and capital investments in environmental governance by the government will provide unprecedented opportunities for environmental protection enterprises to go global for a bigger market.

As a leading provider of integrated waste treatment solution and environmental infrastructure construction services in the PRC, the Group will adhere to the core philosophy of "treating improvement in the environmental protection issue of the state as its duty" and give play to its comprehensive strength. Driven by brands, strategy, talents and technology, the Group will explore new opportunities for business development by diversified means such as BOT, TOT, BOO, commissioning operation as well as merger and acquisition. Leveraging on the strategic plans of Beijing Capital Group Co., Ltd., (北京首都創業集團有限公司) ("Beijing Capital Group") our controlling shareholder, we seize the key links of the solid waste's industrial chain and implement the motto of "quality development", so as to create greater value for shareholders and make greater contributions to creating a good environment and beautiful life. As such, the management is confident of the future development of the Group.

During the first half of 2018, all our colleagues in the Group are unified and make every effort. They have been working hard to stand out from the keen market competition. Thus we have achieved outstanding results in each business and laying a solid foundation for maintaining and reinforcing its leading position in the industry.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

In terms of market expansion, during the first half of 2018, the Group successfully obtained 8 waste treatment projects in the PRC, with the total investment of approximately RMB1,180 million, the newly-designed annual solid waste treatment capacity of 1,160,000 tons and the daily treatment capacity more than 3,226 tons. The new projects include: solid waste innocuous landfill in Laohuyan, Yingde City, Guangdong Province, project of solid waste sanitary landfill in Shangrao City, Jiangxi Province, project of solid waste incineration power generation in Yongji City, Shanxi Province, urban and rural household refuse collection, transportation and landfill project in Guangchang County, Fuzhou City, Jiangxi Province, PPP project of treatment of non-standard dumping sites in Huainan City, Anhui Province, waste incineration power generation project in Xichuan, Xixia and Neixiang Counties in Nanyang City, Henan Province, and project of comprehensive utilization of used mineral oil in Mianyang City, Sichuan Province. The above-mentioned projects enable the Group to continuously remain the growth of incineration projects under the fundamental businesses and further expand the business under strategic cultivation of the Group (i.e. hazardous waste) and the integrated project coverage, so as to generate synergistic effect of businesses in New Zealand; continue to solidify and improve the leading position in the industry and fulfill the development strategy of “one-stop” solid waste treatment comprehensive services for the government and residents.

In terms of business expansion, during the period under review, domestic environmental protection and alternative energy projects of the Group processed household waste of 1,398,400 tons in aggregate and generated total on-grid electricity of 103 million kWh. As of 30 June 2018, the Group secured a total of 60 projects (including 19 waste-to-energy projects, 8 waste landfill projects, 6 anaerobic digestion technology treatment projects, 15 waste removal, collection, storage and transportation projects, 6 hazardous waste treatment projects, 2 dismantling waste electronic appliances projects and 4 biomass resources electricity generation projects) in the PRC with a total investment of approximately RMB14,870 million, of which the investment amount amounted to RMB4,780 million as at 30 June 2018. The facilities are designed with an aggregate annual household waste treatment capacity of approximately 12.57 million tons and annual electrical and electronic equipment dismantling volume of approximately 3.2 million units. The said projects have gradually entered into the construction and operation period. As of 30 June 2018, there were 34 domestic projects which have entered the construction and operation period, of which the household waste incineration power plant project in Qianling, Nanchang, a representative project demonstrating a high level of competence of the Group, has been approved as an environmental demonstration base by the National Development and Reform Commission.

In terms of overseas market, the Group held 51% shares of BCG NZ Investment Holding Limited (“BCG NZ Group”). BCG NZ Group has been operating continuously for more than 100 years, and is the largest waste management service supplier in New Zealand with over 30% market share. It has established a national wide network which vertically integrated the local waste system. BCG NZ Group provides the comprehensive waste management service in New Zealand including waste collection, recycling, disposition of hazardous and industrial waste, and served more than 200,000 customers in New Zealand.

With the development of business sectors, in order to meet the demands of local governments and residents, respond to intense market competition and strengthen the efficiency and the synergistic effect, during the period under review, the Group successively signed cooperation agreements or memoranda with many powerful companies, so as to seek cooperation from various aspects and achieve complementation, equality and mutual benefit, resource sharing and a win-win outcome.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Looking ahead, given there are huge demand for green environmental protection industry during the economic and social development in the PRC and there are also stronger supporting policies from the PRC government to the industry, with the continued comprehensive support from the controlling shareholder (i.e. Beijing Capital Group), the Group can realize the full potential of all the opportunities for future development. The management of the Group believes that by virtue of the industry resources, the market position and competitive advantages of the Group, the Group will constantly seek projects with growth potential and good opportunities for acquisitions and mergers through integrating and improving the existing business portfolio, constantly summing up experience and keeping track of market trends, thus to make continuous contribution to the protection of global environment, the construction of beautiful China and the achievement of green development.

In order to meet the financial needs of the Group's future business development, the Group will conduct adequate research on the change trends in the global financing markets and capital markets, as well as make carefully assessment on the strengths and weaknesses of various financing instruments, so as to utilize several sources of funding to finance the future investments by taking account of its short-term, medium-term and long-term funding needs.

FINANCIAL REVIEW

Overview

During the period under review, the net profit attributable to the owners of the Company amounted to approximately RMB86 million, compared to approximately RMB75.9 million of the corresponding period of last year. The increase in profit was mainly due to construction profit and operating profit contributed as a result of successive commencement of construction and operation of projects, respectively.

Waste Treatment and Waste-to-energy Business

During the period under review, the Group's revenue from the waste treatment and waste-to-energy business reached approximately RMB2,233.8 million, representing an increase of approximately 35.4% as compared to that of the corresponding period last year.

During the period under review, the gross profit margin of the Group was approximately 24.3%.

Administrative Expenses

During the period under review, the administrative expenses of the Group increased by approximately 11.4% to approximately RMB295.8 million. The rise of administrative expenses was mainly due to the increase of number of offices and project staff in order to cater the needs of business development and project growth.

Finance Costs

The finance costs increased by approximately 30.8% to approximately RMB121.7 million, compared to that of the corresponding period last year. The increment was mainly attributable to the increase of the borrowings of the Company and the subsidiaries in the PRC.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Financial Position

As at 30 June 2018, the Group had total assets amounting to approximately RMB12,338.9 million and net assets attributable to the owners of the Company were approximately RMB3,259.9 million. The gearing ratio (which is calculated on the basis of total liabilities over total assets) was approximately 63%, an increase of 5 percentage points from 58% at the end of 2017. The current ratio (which is calculated on the basis of current assets over current liabilities) increased from approximately 0.56 as at 31 December 2017 to approximately 0.64 as at 30 June 2018.

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. The Group has adopted a capital preservation policy for managing the funds raised but has not been utilized.

Financial Resources

The Group finances its operations primarily with internally generated cash flow and loan facilities from shareholders and banks. As at 30 June 2018, the Group had cash and bank balances, time and pledged bank deposits of approximately RMB1,306.9 million, representing an increase of approximately RMB397.6 million as compared to approximately RMB909.3 million at the end of 2017. The increment was mainly due to the increase in bank financing during the year under review. Currently, most of the Group's cash is denominated in RMB, HK\$ and NZ\$.

Borrowings

As at 30 June 2018, the Group had outstanding borrowings of approximately RMB5,821.3 million, representing an increase of approximately RMB1,122.6 million as compared to approximately RMB4,698.7 million at the end of 2017. The borrowings comprised secured loans of approximately RMB2,285.5 million and unsecured loans of approximately RMB3,535.8 million. The borrowings are denominated in RMB, HK\$ and NZ\$. Approximately 69% and 31% 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\$, NZ\$ 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. 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 2018, the Group's guarantee for certain bank financing included certain proceeds from the Group's service concession arrangements, the prepaid lease payments and buildings.

Capital commitment arrangements

As at 30 June 2018, the Group had capital commitment of approximately RMB1,037.9 million and RMB234.9 million in respect of the construction work under service concession arrangements and acquisition of property, plant and equipment respectively, which were contracted but not provided for in the consolidated financial statements.

Contingent Liabilities

As at 30 June 2018, the Group provided guarantees of approximately RMB0.626 million in favour of a bank in respect of banking facilities granted to an associate. The Group provided guarantees of approximately NZ\$57.2 million to the government institutions of New Zealand in respect of the continuous operation or the fulfillment of operation standards of the landfill sites.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Employee Information

As at 30 June 2018, the Group had about 3,610 employees in total, stationed mainly in Mainland China, Hong Kong and New Zealand. 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.

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 2018 (six months ended 30 June 2017: nil).



REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS



**To the members of
Capital Environment Holdings Limited**
(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the accompanying interim financial information of Capital Environment Holdings Limited (the "Company") and its subsidiaries set out on pages 9 to 50, which comprises the interim condensed consolidated statement of financial position as at 30 June 2018, the interim condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the six months then ended, and explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 *Interim Financial Reporting* ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The directors of the Company are responsible for the preparation and presentation of the interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on the interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Certified Public Accountants
Hong Kong

24 August 2018

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Notes	For the six months ended 30 June	
		2018 RMB'000 Unaudited	2017 RMB'000 Unaudited
REVENUE	4	2,233,769	1,649,299
Cost of sales		(1,690,728)	(1,146,241)
Gross profit		543,041	503,058
Other income and gains	4	47,221	8,783
Administrative expenses		(295,816)	(265,543)
Other expenses		(4,353)	(8,533)
Finance costs	6	(121,749)	(93,075)
Share of profits of joint ventures		20,637	20,831
Share of profits of associates		5,651	1,579
PROFIT BEFORE TAX	5	194,632	167,100
Income tax	7	(50,385)	(29,785)
PROFIT FOR THE PERIOD		144,247	137,315
Attributable to:			
Owners of the parent		86,036	75,868
Non-controlling interests		58,211	61,447
		144,247	137,315
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic	8	RMB0.60 cent	RMB0.53 cent
Diluted	8	RMB0.60 cent	RMB0.53 cent



INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	For the six months ended 30 June	
	2018 RMB'000 Unaudited	2017 RMB'000 Unaudited
PROFIT FOR THE PERIOD	144,247	137,315
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Financial assets at fair value through other comprehensive income:		
Changes in fair value	(11,136)	—
Available-for-sale investments:		
Changes in fair value	—	10,183
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments arising during the period	—	(3,337)
Exchange differences related to foreign operations	(64,047)	29,109
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	(75,183)	35,955
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	69,064	173,270
Attributable to:		
Owners of the parent	42,237	99,195
Non-controlling interests	26,827	74,075
	69,064	173,270

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2018

	Notes	30 June 2018 RMB'000 Unaudited	31 December 2017 RMB'000 Audited
NON-CURRENT ASSETS			
Property, plant and equipment		1,761,591	1,790,082
Prepaid land lease payments		52,467	49,627
Goodwill	10	1,992,011	2,044,408
Other intangible assets	11	1,719,088	1,906,175
Investments in joint ventures	12	445,296	462,344
Investments in associates	14	97,183	91,532
Financial assets at fair value through other comprehensive income	15	88,812	—
Available-for-sale investments		—	95,041
Deferred tax assets		11,269	10,568
Concession financial assets	16	1,510,657	1,864,989
Contract assets	16	1,666,262	—
Prepayments, deposits and other receivables	17	111,564	132,028
Pledged bank deposits	20	2,000	—
Time deposits		2,500	12,500
Total non-current assets		9,460,700	8,459,294
CURRENT ASSETS			
Inventories	18	39,710	39,911
Concession financial assets	16	244,157	178,988
Contract assets	16	26,409	—
Assets classified as held for sale		6,124	9,541
Trade receivables	19	753,482	777,632
Prepayments, deposits and other receivables	17	434,862	265,238
Prepaid land lease payments		1,469	948
Derivative financial instruments		109	—
Amount due from a shareholder		144	—
Amounts due from associates	20	48,536	47,741
Tax recoverable		20,818	6,354
Pledged deposits		2,000	4,000
Time deposits		10,000	—
Cash and cash equivalents		1,290,421	892,790
Total current assets		2,878,241	2,223,143
CURRENT LIABILITIES			
Trade payables	21	684,541	405,155
Other payables and accruals	22	390,670	389,493
Contract liabilities		89,517	—
Deferred income		8,394	394
Derivative financial instruments		385	1,727
Interest-bearing bank and other borrowings	23	3,285,317	3,145,327
Amount due to a related party		1,665	1,376
Tax payable		57,805	47,983
Total current liabilities		4,518,294	3,991,455
NET CURRENT LIABILITIES		(1,640,053)	(1,768,312)
TOTAL ASSETS LESS CURRENT LIABILITIES		7,820,647	6,690,982



INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

AS AT 30 JUNE 2018

	Notes	30 June 2018 RMB'000 Unaudited	31 December 2017 RMB'000 Audited
NON-CURRENT LIABILITIES			
Deferred income		35,134	34,153
Interest-bearing bank and other borrowings	23	2,536,032	1,553,374
Derivative financial instruments		329	—
Deferred tax liabilities		458,477	434,266
Provisions	24	197,889	204,114
Total non-current liabilities		3,227,861	2,225,907
Net assets		4,592,786	4,465,075
EQUITY			
Equity attributable to owners of the parent			
Issued capital	25	1,188,219	1,188,219
Reserves		2,071,695	2,025,290
		3,259,914	3,213,509
Non-controlling interests		1,332,872	1,251,566
Total equity		4,592,786	4,465,075

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Attributable to owners of the parent										
	Issued capital	Share premium	Capital reserve	Merger reserve	Hedging reserve	Available-for-sale investments revaluation reserve	Exchange fluctuation reserve	(Accumulated losses)/Retained profits	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2017	1,188,219	3,972,845	—	(481,084)	(1,683)	(18,963)	(104,381)	(1,453,076)	3,101,877	1,190,108	4,291,985
Profit for the period	—	—	—	—	—	—	—	75,868	75,868	61,447	137,315
Other comprehensive income for the period:											
Exchange differences related to foreign operations	—	—	—	—	—	—	14,846	—	14,846	14,263	29,109
Changes in fair value of available-for-sale investments, net of tax	—	—	—	—	—	10,183	—	—	10,183	—	10,183
Change in fair value of cash flows hedge	—	—	—	—	(1,702)	—	—	—	(1,702)	(1,635)	(3,337)
Total comprehensive income for the period	—	—	—	—	(1,702)	10,183	14,846	75,868	99,195	74,075	173,270
Capital contribution from non-controlling shareholders of subsidiaries	—	—	—	—	—	—	—	—	—	16,300	16,300
Acquisition of non-controlling interests	—	—	9,540	—	—	—	—	—	9,540	(28,170)	(18,630)
At 30 June 2017 (unaudited)	1,188,219	3,972,845	9,540	(481,084)	(3,385)	(8,780)	(89,535)	(1,377,208)	3,210,612	1,252,313	4,462,925



INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Attributable to owners of the parent										
	Issued capital <i>RMB'000</i> (note 25)	Share premium <i>RMB'000</i>	Capital reserve <i>RMB'000</i>	Merger reserve <i>RMB'000</i>	Available-for-sale investments revaluation reserve <i>RMB'000</i>	Fair value reserve of financial assets at fair value through other comprehensive income <i>RMB'000</i>	Exchange fluctuation reserve <i>RMB'000</i>	(Accumulated losses)/ Retained profits <i>RMB'000</i>	Total <i>RMB'000</i>	Non-controlling interests <i>RMB'000</i>	Total equity <i>RMB'000</i>
At 31 December 2017, as previously presented	1,188,219	3,972,845	9,540	(481,084)	(4,067)	—	(167,210)	(1,304,734)	3,213,509	1,251,566	4,465,075
Adjustment on adoption of HKFRS 9 (note 2)	—	—	—	—	4,067	840	—	—	4,907	—	4,907
At 1 January 2018	1,188,219	3,972,845	9,540	(481,084)	—	840	(167,210)	(1,304,734)	3,218,416	1,251,566	4,469,982
Profit for the period	—	—	—	—	—	—	—	86,036	86,036	58,211	144,247
Other comprehensive income for the period:											
Exchange differences related to foreign operations	—	—	—	—	—	—	(32,663)	—	(32,663)	(31,384)	(64,047)
Changes in fair value of financial assets at fair value through other comprehensive income, net of tax	—	—	—	—	—	(11,136)	—	—	(11,136)	—	(11,136)
Total comprehensive income for the period	—	—	—	—	—	(11,136)	(32,663)	86,036	42,237	26,827	69,064
Capital contribution from non-controlling shareholders of subsidiaries	—	—	—	—	—	—	—	—	—	18,180	18,180
Acquisition of subsidiaries (note 26)	—	—	—	—	—	—	—	—	—	36,060	36,060
Acquisition of non-controlling interests	—	—	(739)	—	—	—	—	—	(739)	239	(500)
At 30 June 2018 (unaudited)	1,188,219	3,972,845*	8,801*	(481,084)*	—*	(10,296)*	(199,873)*	(1,218,698)*	3,259,914	1,332,872	4,592,786

* These reserve accounts comprise the consolidated reserves of RMB2,071,695,000 (31 December 2017: RMB2,025,290,000) in the interim condensed consolidated statement of financial position.

Merger reserve represents the difference between the fair value of the consideration paid to Beijing Capital (Hong Kong) Limited (“Beijing Capital (HK)”), an immediate shareholder of the Company and BCG Chinastar International Investment Limited (“BCG Chinastar”), a wholly-owned subsidiary of the Company’s ultimate controlling shareholder, Beijing Capital Group Co., Ltd. (“Beijing Capital Group”), for the acquisition of 51% interest in BCG NZ Investment Holding Limited (“BCG NZ”) which are under common control of Beijing Capital Group, and the carrying amounts of the net assets of BCG NZ acquired.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Notes	For the six months ended 30 June	
		2018 RMB'000 Unaudited	2017 RMB'000 Unaudited
Cash flows from operating activities			
Profit before tax	5	194,632	167,100
Adjustments for:			
Depreciation and amortisation	5	144,148	135,789
Net gain on disposal of items of property, plant and equipment	5	(246)	(315)
(Reversal of impairment)/impairment of prepayments, deposits and other receivables	5	(800)	2,358
(Reversal of impairment)/impairment of trade receivables	5	(1,733)	2,311
Share of profits of joint ventures		(20,637)	(20,831)
Share of profits of associates		(5,651)	(1,579)
Finance income		(79,732)	(49,728)
Finance costs		121,749	93,075
Dividend income from financial assets at fair value through other comprehensive income		(94)	—
		351,636	328,180
Decrease in inventories		375	2,899
Increase in concession financial assets and contract assets in relation to service concession arrangements		(612,116)	(156,661)
Decrease/(increase) in trade receivables		20,430	(89,911)
Increase in prepayments, deposits and other receivables		(86,702)	(61,407)
Increase/(decrease) in trade payables		275,016	(6,482)
Decrease in other payables and accruals		(63,744)	(35,016)
Decrease in provision		(706)	(1,271)
Increase in deferred income		9,500	5,000
		(106,311)	(14,669)
Cash used in operations		(106,311)	(14,669)
Income tax paid		(36,318)	(40,456)
		(142,629)	(55,125)
Net cash flows used in operating activities			



INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	For the six months ended 30 June	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
	Unaudited	Unaudited
Cash flows from investing activities		
Increase in other intangible assets and contract assets in relation to service concession arrangements	(300,368)	(122,750)
Purchases of items of property, plant and equipment	(157,572)	(171,349)
Additions to other intangible assets	(309)	(158)
Proceeds from disposal of items of property, plant and equipment	385	4,474
Deposits paid to potential acquisitions	—	(7,000)
Acquisition of subsidiaries	(13,897)	—
Decrease/(increase) in assets held for sale	3,417	(2,025)
Interest received	2,424	3,461
Dividend received from a joint venture	23,921	14,600
Decrease in pledged bank deposits and time deposits	—	10,000
Net cash flows used in investing activities	(441,999)	(270,747)
Cash flows from financing activities		
Interest paid	(120,629)	(92,525)
Repayment of bank loans	(224,820)	(332,118)
New bank and other borrowings	1,304,072	586,530
Dividends paid by BCG NZ	—	(97,082)
Acquisition of non-controlling interests of a subsidiary	(500)	(8,799)
Capital contribution from non-controlling shareholders of subsidiaries	18,180	16,300
Net cash flows generated from financing activities	976,303	72,306
Net increase/(decrease) in cash and cash equivalents	391,675	(253,566)
Effect of foreign exchange rate changes, net	5,956	(3,957)
Cash and cash equivalents at beginning of the period	892,790	755,954
Cash and cash equivalents at end of the period	1,290,421	498,431

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

1. CORPORATE AND GROUP INFORMATION

Capital Environment Holdings Limited (the “Company”) was incorporated in the 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 with effect from 13 July 2006. The address of the registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, the Cayman Islands. The Company’s head office and principal place of business in Hong Kong is in Unit 1613–1618, 16th Floor, Bank of America Tower, 12 Harcourt Road, Central.

The principal activity of the Company and its subsidiaries (the “Group”) is waste treatment and waste-to-energy business.

The Group’s principal operations and geographic markets are in New Zealand and Mainland China.

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP’S ACCOUNTING POLICIES

Basis of preparation

The unaudited interim condensed consolidated financial statements for the six months ended 30 June 2018 have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 *Interim Financial Reporting* and the applicable disclosure requirements of Appendix 16 to the Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements as at 31 December 2017. The interim condensed consolidated financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousands, except when otherwise indicated.

As at 30 June 2018, the Group’s current liabilities exceeded its current assets by approximately RMB1,640 million. 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 the immediate shareholder, BCG Chinastar, has agreed to provide adequate financial support. Accordingly, the interim condensed consolidated financial statements for the six months ended 30 June 2018 have been prepared on the basis of going concern.



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES *(Continued)* **New standards, interpretations and amendments adopted by the Group**

The accounting policies adopted in the preparation of the interim financial information are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of new standards effective as of 1 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, HKFRS 15 *Revenue From Contracts with Customers* and HKFRS 9 *Financial Instruments*, and adopted the transitional provisions in HKFRS 15 and HKFRS 9 to recognise the cumulative effect of the new standards. As required by HKAS 34, the nature and effect of these changes are disclosed below.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the interim condensed consolidated financial statements of the Group.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 supersedes HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The principal activity of the Group is waste treatment and waste-to-energy business in the People's Republic of China ("PRC") and New Zealand.

(a) Service concession arrangements

The Group entered into service concession arrangements with government authorities or their designators ("Grantor") in respect of the waste management and waste-to-energy business in the PRC. The arrangements were accounted for in accordance with HK(IFRIC) Interpretation 12 *Service Concession Arrangements* ("HK(IFRIC)-Int12"). HK(IFRIC)-Int12 was not significantly amended upon issue of HKFRS 15.

The Group has made a detailed assessment of the impact of HKFRS 15 on the accounting practices for service concession arrangements under HK(IFRIC)-Int12, and concluded that (i) the Grantor is considered as the only customer of the service concession arrangements; (ii) the construction and operation obligations are identified as separate elements of the service concession arrangements, minor maintenance is not identified as a separate performance obligation; (iii) because of the timing of payments from the Grantor compared to the provision of construction services by the Group, the effect of financing is excluded from the transaction price prior to the allocation of transaction price to performance obligations; (iv) if stand-alone selling prices are not readily observable, they must be estimated, considering all information that is reasonably available to the entity. The Group chooses to estimate stand-alone selling prices using an expected cost plus margin approach; (v) revenue is recognised over time for construction and operating services. Minor maintenance is assumed not to be a separate performance obligation and therefore no revenue is recognised in respect of maintenance. Therefore, the adoption of HKFRS 15 does not have any significant impact on the Group's current accounting treatment of service concession arrangements in the PRC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (Continued) New standards, interpretations and amendments adopted by the Group (Continued)

HKFRS 15 Revenue from Contracts with Customers (Continued)

(b) Rendering of waste treatment services in New Zealand

The Group's segment in New Zealand provided waste treatment services, including waste collection, waste landfill, recycling and technical services. The services were accounted for in accordance with HKAS 18 *Revenue*.

The Group has made a detailed assessment of the impact of HKFRS 15 on the accounting practices for waste treatment services, and concluded that the revenue shall be recognised upon delivery of services to the customers under HKFRS 15. Therefore, the adoption of HKFRS 15 does not have any significant impact on the Group's current accounting treatment of waste treatment services in New Zealand.

(c) Presentations and disclosures

Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue before receiving the consideration or being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. HKFRS 15 amends HK(IFRIC)-Int12 to change the date of initial recognition of the financial asset and intangible asset. The amendment requires a contract asset to be recognised during the construction activity and requires the significant financing component in the arrangement to be accounted for in accordance with HKFRS 15 until construction is complete.

The adoption of HKFRS 15 has affected the presentation and disclosure of contract balances including contract assets and contract liabilities in the consolidated financial statements.

Impact on the consolidated statement of financial position (increase/(decrease)) as at 1 January 2018:

	<i>RMB'000</i>
NON-CURRENT ASSETS	
Other intangible assets	(361,846)
Concession financial assets	(908,447)
Contract assets	1,270,293
CURRENT ASSETS	
Concession financial assets	(35,286)
Contract assets	35,286
CURRENT LIABILITIES	
Other payables and accruals	(95,569)
Contract liabilities	95,569
Net assets	—



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES *(Continued)* New standards, interpretations and amendments adopted by the Group *(Continued)*

HKFRS 9 Financial Instruments

HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group has adopted HKFRS 9 on 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transitional provision under HKFRS 9, comparative figures are not required to be restated. As a result, any adjustments to carrying amounts of financial assets or financial liabilities are recognised at the beginning of the current reporting period, with the difference recognised in the opening retained earnings (or other component of equity, as appropriate) of the reporting period that includes the date of initial application.

The Group has performed a detailed assessment of the impact of the adoption of HKFRS 9, and concluded that except the classification and measurement of below listed securities and unlisted equity investment, HKFRS 9 does not have material impact on the Group's consolidated financial statements.

The Group held an unlisted equity investment, which was recorded in available-for-sale investments and measured at cost less impairment loss in and before 2017. According to HKFRS 9, unlisted equity investments are measured at fair value. The unlisted equity investment held by the Group is measured at fair value through other comprehensive income as the investment is intended to be held for the foreseeable future and the Group applies the option to present fair value changes in other comprehensive income. The listed securities which were measured at fair value through other comprehensive income are reclassified from available-for-sale investments to financial assets at fair value through other comprehensive income.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (Continued) New standards, interpretations and amendments adopted by the Group (Continued) HKFRS 9 Financial Instruments (Continued)

Impact on the consolidated statement of financial position (increase/(decrease)) as at 1 January 2018:

At 1 January 2018	Available- for-sale investments RMB'000	Financial assets at fair value through other comprehensive income RMB'000
Opening balance as originally presented	95,041	—
Reclassification of available-for-sale investments to financial assets at fair value through other comprehensive income	(95,041)	95,041
Cumulative changes in fair value	—	4,907
Opening balance — HKFRS 9	—	99,948

Impact on the consolidated statement of changes in equity (increase/(decrease)) as at 1 January 2018:

At 1 January 2018	Available- for-sale investments revaluation reserve RMB'000	Fair value reserve of financial assets at fair value through other comprehensive income RMB'000
Opening balance as originally presented	(4,067)	—
Reclassification of available-for-sale investments to financial assets at fair value through other comprehensive income	4,067	(4,067)
Cumulative changes in fair value	—	4,907
Opening balance — HKFRS 9	—	840



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES *(Continued)*

New standards, interpretations and amendments adopted by the Group *(Continued)*

HK(IFRIC) Interpretation 22 Foreign Currency Transactions and Advance Considerations

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the Group's consolidated financial statements.

Amendments to HKAS 40 Transfers of Investment Property

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments do not have any impact on the Group's consolidated financial statements.

Amendments to HKFRS 2 Classification and Measurement of Share-based Payment Transactions

The HKICPA issued amendments to HKFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The Group's accounting policy for cash-settled share based payments is consistent with the approach clarified in the amendments. In addition, the Group has no share-based payment transaction with net settlement features for withholding tax obligations and had not made any modifications to the terms and conditions of its share-based payment transaction. Therefore, these amendments do not have any impact on the Group's consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES *(Continued)* New standards, interpretations and amendments adopted by the Group *(Continued)*

Amendments to HKFRS 4 Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts

The amendments address concerns arising from implementing the new financial instruments standard, HKFRS 9, before implementing HKFRS 17 *Insurance Contracts*, which replaces HKFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying HKFRS 9 and an overlay approach. These amendments are not relevant to the Group.

Amendments to HKAS 28 Investments in Associates and Joint Ventures — Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice

The amendments clarify that an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. These amendments do not have any impact on the Group's consolidated financial statements.

Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards — Deletion of short-term exemptions for first-time adopters

Short-term exemptions in paragraphs E3–E7 of HKFRS 1 were deleted because they have now served their intended purpose. These amendments do not have any impact on the Group's consolidated financial statements.



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

3. OPERATING SEGMENT INFORMATION

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax from operations. The adjusted profit/loss before tax from operations is measured consistently with the Group's profit before tax from operations.

The Group's reportable segments are (a) waste treatment and waste-to-energy business in the PRC and (b) waste treatment and waste-to-energy business in New Zealand.

Six months ended 30 June 2018	Waste treatment and waste-to-energy business in the PRC RMB'000	Waste treatment and waste-to-energy business in New Zealand RMB'000	Total RMB'000
Segment revenue:			
Revenue from external customers	1,114,964	1,118,805	2,233,769
Revenue from operations			<u>2,233,769</u>
Segment results	55,936	88,311	144,247
Other segment information:			
Share of profits of joint ventures	—	20,637	20,637
Share of profits of associates	5,651	—	5,651
(Reversals of impairment losses)/impairment losses recognised in the statement of profit or loss	(5,019)	2,486	(2,533)
Depreciation and amortisation	13,665	130,483	144,148
Capital expenditure (Note)	78,510	79,062	157,572
As at 30 June 2018			
Segment assets	6,587,614	5,751,327	12,338,941
Segment liabilities	4,111,192	3,634,963	7,746,155

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

3. OPERATING SEGMENT INFORMATION *(Continued)*

Six months ended 30 June 2017	Waste treatment and waste-to-energy business in the PRC <i>RMB'000</i>	Waste treatment and waste-to-energy business in New Zealand <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue:			
Revenue from external customers	494,139	1,155,160	1,649,299
Revenue from operations			<u>1,649,299</u>
Segment results			
	18,310	119,005	137,315
Other segment information:			
Share of profits of joint ventures	—	20,831	20,831
Share of profits of associates	1,579	—	1,579
Impairment losses recognised in the statement of profit or loss	2,417	2,252	4,669
Depreciation and amortisation	9,774	126,015	135,789
Capital expenditure (Note)	19,115	152,234	171,349
As at 31 December 2017			
Segment assets	4,750,666	5,931,771	10,682,437
Segment liabilities	2,377,692	3,839,670	6,217,362

Note: Capital expenditure consists of additions to property, plant and equipment.

Information about a major customer

No individual customer of the Group contributed 10% or more of the Group's revenue.



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

4. REVENUE, OTHER INCOME AND GAINS

An analysis of the Group's revenue, other income and gains for the period is as follows:

	For the six months ended 30 June	
	2018 RMB'000 Unaudited	2017 RMB'000 Unaudited
Revenue		
Construction services under service concession arrangements	835,022	260,161
Operation services under service concession arrangements	96,954	49,722
Effective interest income on concession financial assets	62,577	45,751
Electronic appliance dismantling services	97,888	132,655
Waste collection services	726,487	733,521
Waste landfill services	216,295	219,866
Recycling	55,149	77,340
Technical services	116,006	120,511
Others	27,391	9,772
	2,233,769	1,649,299
Other income and gains		
Bank interest income	1,499	2,834
Other interest income	15,656	1,143
Gain on disposal of investment in an associate	10,103	—
Gain on disposal of items of property, plant and equipment	246	315
Government grants	9,894	1,862
Reversal of impairment of trade receivables	4,661	—
Reversal of impairment of prepayments, deposits and other receivables	800	—
Foreign exchange gains	633	—
Others	3,729	2,629
	47,221	8,783

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	For the six months ended 30 June	
	2018 RMB'000 Unaudited	2017 RMB'000 Unaudited
Cost of services rendered for service concession arrangements	841,987	256,196
Cost of services provided	848,741	890,045
Depreciation	116,341	109,437
Amortisation		
— prepaid land lease payments	697	1,102
— intangible assets	27,110	25,250
Minimum lease payments under operating leases	44,238	35,494
Auditor's remuneration	853	941
Employee benefit expense (excluding directors' remuneration):		
Wages and salaries	280,739	283,867
Pension scheme contributions	14,912	14,318
Foreign exchange differences, net	17,737	3,348
(Reversal of impairment)/impairment of prepayments, deposits and other receivables	(800)	2,358
(Reversal of impairment)/impairment of trade receivables	(1,733)	2,311
Gain on disposal of items of property, plant and equipment	(246)	(315)

6. FINANCE COSTS

	For the six months ended 30 June	
	2018 RMB'000 Unaudited	2017 RMB'000 Unaudited
Interest on bank and other loans	111,613	91,262
Other finance costs:		
Increase in discounted amounts of provisions arising from the passage of time	2,550	1,813
Others	7,586	—
	121,749	93,075



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

7. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2017: 16.5%) on the estimated assessable profits arising in Hong Kong during the period.

Withholding Hong Kong profits tax was calculated at 10% (six months ended 30 June 2017: 10%) on the interest income recognised by a subsidiary in Hong Kong from a subsidiary in New Zealand.

Under the Law of the PRC Enterprise Income Tax and Implementation Regulation of the law, the tax rate of the PRC subsidiaries was 25% for both periods. Fourteen (six months ended 30 June 2017: six) of the Group's subsidiaries operating in the PRC were eligible for certain tax benefits. Eight (six months ended 30 June 2017: five) were exempted from PRC income taxes whereas another six (six months ended 30 June 2017: one) were entitled to preferential tax rates of 7.5%, 10% or 12.5% (six months ended 30 June 2017: 7.5%) for the period.

New Zealand profits tax has been provided at the rate of 28% (six months ended 30 June 2017: 28%) on the estimated assessable profits arising in New Zealand during the period.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/ (jurisdictions) in which the Group operates.

	For the six months ended 30 June	
	2018 RMB'000 Unaudited	2017 RMB'000 Unaudited
Current income tax:		
— Hong Kong	12,169	9,731
— PRC	8,291	2,452
— New Zealand	14,799	14,315
Deferred	15,126	3,287
Total tax charge for the period	50,385	29,785

8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

Basic earnings per share ("EPS") amounts are calculated by dividing the profit for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (Continued)

The Group had no potentially dilutive ordinary shares in issue during the six months ended 30 June 2018 and 2017.

	For the six months ended 30 June	
	2018 RMB'000 Unaudited	2017 RMB'000 Unaudited
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	86,036	75,868
	For the six months ended 30 June	
	2018	2017
Shares		
Weighted average number of shares in issue during the period used in the basic and diluted earnings per share calculation	14,294,733,167	14,294,733,167

9. DIVIDENDS PROPOSED

No interim dividend was proposed by the Company for the six months ended 30 June 2018 and 2017.

10. GOODWILL

	30 June 2018 RMB'000 Unaudited	31 December 2017 RMB'000 Audited
At 1 January	2,044,408	2,166,182
Acquisition of subsidiaries (note 26)	8,534	—
Other decrease	—	(5,290)
Exchange realignment	(60,931)	(116,484)
Net carrying amount at the period/year end	1,992,011	2,044,408



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

11. OTHER INTANGIBLE ASSETS

For the six months ended 30 June 2018, additions in intangible assets arising from service concession arrangements of RMB208,409,000 represent:

- 1) RMB190,536,000 of increase due to the construction of a BOT project, Zhejiang Zhuoshang Environmental Energy Company Limited (浙江卓尚環保能源有限公司) (“Zhejiang Zhuoshang”), which is engaged in the treatment of kitchen waste.
- 2) RMB6,370,000 of increase due to the construction of a BOT project, Duyun Capital Environment Company Limited (都勻市首創環保有限公司), which is engaged in waste management and waste-to-energy business.
- 3) RMB11,503,000 of increase due to the construction of a BOT project, Shicheng Capital Environment Limited (石城縣首創環保有限公司), which is engaged in waste collection and transportation business.

The intangible assets arising from the service concession arrangements are amortised over the period which commences from the date when the related plants are available for use to end of the service concession period, using a straight-line method.

Revenue and gross margin recognised from construction services and operation services of the service concession arrangements were collectively disclosed in note 16.

12. INVESTMENTS IN JOINT VENTURES

Particulars of the Group’s joint ventures as at 30 June 2018 and 31 December 2017 are as follows:

Name	Particulars of issued shares held	Place and date of incorporation	Percentage of ownership interest	Principal activities
Midwest Disposals Limited (“Midwest Disposals”)	NZD1,300,000	New Zealand 18 August 2000	50%	Waste management
Pikes Point Transfer Station Limited (“Pikes Point Transfer Station”)	NZD2,685,000	New Zealand 24 March 1993	50%	Waste transfer station
Transwaste Canterbury Limited (“Transwaste”)	NZD16,000,000	New Zealand 31 March 1999	50%	Waste collection and landfill
Daniels Sharp Smart Limited	NZD200	New Zealand 4 November 2002	50%	Component cleaning

The share of results of the four joint ventures of RMB20,637,000 is recognised for the six months ended 30 June 2018 (six months ended 30 June 2017: RMB20,831,000).

The Group’s receivables due from and payables due to joint ventures are disclosed in notes 19 and 21 to the interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

13. INVESTMENT IN A JOINT OPERATION

Name	Place of incorporation	Ownership interest attributable to the Group at		Principal activity
		30 June 2018	31 December 2017	
Waste Disposal Services	New Zealand	50%	50%	Waste collection and landfill

The Group has a 50% interest in Waste Disposal Services, an unincorporated joint operation with the Auckland City Council. According to the joint operation agreement, the Group accounts for its joint operation by including its share of revenues, expenses, assets and liabilities of Waste Disposal Services in its own financial statements. Waste Disposal Services operates a landfill and refuse station in South Auckland.

The Group's share of material assets and liabilities of Waste Disposal Services is as follows:

	30 June 2018 RMB'000 Unaudited	31 December 2017 RMB'000 Audited
Current assets	9,520	17,749
Non-current assets	86,039	86,215
Total assets	95,559	103,964
Current liabilities	(2,747)	(2,958)
Non-current liabilities	(28,275)	(30,693)
Total liabilities	(31,022)	(33,651)
Net assets shared by the Group	64,537	70,313

	30 June 2018 RMB'000 Unaudited	30 June 2017 RMB'000 Unaudited
Share of the joint operation's revenue	19,685	20,234
Share of the joint operation's expenses	(12,032)	(13,781)
Share of the joint operation's profit before tax	7,653	6,453
Cash received	11,391	7,300

The Group's receivables due from and payables due to the other operator of Waste Disposal Services are disclosed in notes 19 and 21 to the interim condensed consolidated financial statements.



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

14. INVESTMENTS IN ASSOCIATES

Particulars of the Group's associates as at 30 June 2018 are as follows:

Name	Particulars of issued shares held	Place of registration and business	Percentage of ownership interest	Principal activities
Shenzhen Guangye Environmental Recycling Energy Limited 深圳廣業環保再生能源有限公司 (“SZ Guangye”) (Formerly known as Shenzhen Yueneng Environmental Recycling Energy Limited 深圳粵能環保再生能源有限公司)	RMB93,446,700	PRC/Mainland China	46%	Waste treatment and waste-to-energy plant in Shenzhen, the PRC on a Build-Operate-Transfer (“BOT”) basis
Beijing Lanjie Lide Environment Holding Limited 北京藍潔利德環境科技有限公司 (“Beijing Lanjie”)	RMB1,760,000	PRC/Mainland China	29%	Provision of waste transportation service

The investment in Changzhou Boiler Company Limited (常州鍋爐有限公司) was disposed of at a consideration of RMB10,103,000 on 19 April 2018.

The share of results of the associates of RMB5,651,000 is recognised for the six months ended 30 June 2018 (six months ended 30 June 2017: RMB1,579,000).

The Group's receivables due from associates are disclosed in note 20 to the interim condensed consolidated financial statements.

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	30 June 2018 RMB'000 Unaudited	31 December 2017 RMB'000 Audited
Listed securities, at fair value		
— equity securities listed in Hong Kong	67,672	—
Unlisted equity investment, at fair value		
— Beijing Yiqing Biomax Green Energy Park Company Limited (北京市一清百瑪士能源有限公司) (“Beijing Yiqing”)	21,140	—
	88,812	—

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME *(Continued)*

Movement of financial assets at fair value through other comprehensive income in the current period is analysed as follows:

	<i>RMB'000</i> Unaudited
At 1 January 2018	—
Adjustment on adoption of HKFRS 9 (note 2)	99,948
Changes in fair value	(11,136)
At 30 June 2018	88,812

16. CONCESSION FINANCIAL ASSETS AND CONTRACT ASSETS

The Group provides construction and operation services to the Grantor under the service concession arrangements, the consideration received or receivable by the Group is recognised in accordance with HKFRS 15. The consideration is rights to a financial asset, or an intangible asset. The Group recognises a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the Grantor for the construction services; the Grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law. The Group recognises an intangible asset to the extent that it receives a right (a licence) to charge users of the public service. A right to charge users of the public service is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the service. Sometimes the Group is paid for the construction services partly by a financial asset and partly by an intangible asset, the Group accounts separately for each component of the consideration. Both types of consideration are classified as a contract asset during the construction period in accordance with HKFRS 15.

The effective interest rates used in service concession arrangements ranged from 5.39% to 6.56% for the six months ended 30 June 2018.

Service concession arrangements with certain government authorities in the PRC require the Group to operate and maintain the waste treatment and waste-to-energy plants at a specified level of service ability on behalf of the relevant government authorities over the relevant service concession periods.

The Group recognised revenue from construction services of RMB835,022,000 (six months ended 30 June 2017: RMB260,161,000) and revenue from operation services of RMB96,954,000 (six months ended 30 June 2017: RMB49,722,000) for all the service concession arrangements of the Group (see note 4). The gross profits recognised from construction services were amounted to RMB77,757,000 (six months ended 30 June 2017: RMB29,525,000) and the gross profits recognised from operation services were amounted to RMB38,446,000 (six months ended 30 June 2017: RMB27,421,000) for all the service concession arrangements of the Group.



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Notes	30 June 2018 RMB'000 Unaudited	31 December 2017 RMB'000 Audited
Advances to suppliers		101,168	74,845
Deposits for acquisitions	(a)	21,000	30,500
Value added tax receivables		143,183	92,288
Loans receivable	(b)	81,310	31,262
Prepayments for emission units		24,666	41,129
Advances payment to Urban Construction Design & Research Institute (城市建設研究院) (“Urban Construction Institute”)	(c)	40,050	40,050
Other deposits		113,584	74,048
Others		21,465	13,144
		546,426	397,266
Analysed for reporting purposes as:			
Current assets		434,862	265,238
Non-current assets		111,564	132,028
		546,426	397,266

(a) Deposits for acquisitions

As at 30 June 2018, deposits of RMB21,000,000 were paid for three potential acquisitions of equity interests in companies with BOT projects.

(b) Loans receivable

Loans receivable represent (i) amount of RMB22,267,000 (31 December 2017: RMB23,262,000) due from a related party of a former shareholder of Zhejiang Zhuoshang, which was acquired by the Group on 1 December 2015. According to the payment schedule, RMB8,920,000 is expected to be repaid in 2019 and therefore classified as current assets. The loan bears interest at PRC Benchmark Lending Rate per annum; (ii) amount of RMB59,043,000 (31 December 2017: nil) due from the former shareholder of two subsidiaries of the Group. The loan is interest-free. The loan amounted to RMB8,000,000 as at 31 December 2017, which was due from a non-controlling shareholder of a subsidiary of the Group was collected in 2018.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(Continued)*

(c) Advances payment to Urban Construction Institute

The amount represents an advance payment to a third party supplier, Urban Construction Institute, with the carrying amount of RMB40,050,000 (31 December 2017: RMB40,050,000), net of impairment loss of RMB89,600,000 (31 December 2017: RMB89,600,000).

There were disputes in relation to the advance payment between the Group and Urban Construction Institute. The Group submitted the first dispute with Urban Construction Institute to Nanchang Arbitration Committee (南昌仲裁委員會) during the year ended 31 December 2012 and various appeals were made between the Group and Urban Construction Institute to the Nanchang Arbitration Committee and different law courts in the PRC.

On 7 March 2016, a court order requiring the Group to attend a hearing was issued by High Court of Jiangxi Province (江西省高級人民法院) (the "High Court") and the court requested the Group and Urban Construction Institute to provide supporting documents for the appeal.

As at 30 June 2018, the final resolution from the High Court has not yet been released and the amount of deposits refundable from Urban Construction Institute is yet to be finalised. The Group has not made further impairment on such deposits during the six months ended 30 June 2018, after taking into account the legal opinion provided by an independent lawyer.

18. INVENTORIES

	30 June 2018 RMB'000 Unaudited	31 December 2017 RMB'000 Audited
Raw materials	20,545	17,172
Finished goods	19,165	22,739
	39,710	39,911



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

19. TRADE RECEIVABLES

	30 June 2018 RMB'000 Unaudited	31 December 2017 RMB'000 Audited
Trade receivables	760,157	781,654
Impairment	(6,675)	(4,022)
	753,482	777,632

Trade receivables, which are non-interest-bearing, are recognised and carried at the original invoiced amount less any impairment loss. An estimate for doubtful debts is made when there is objective evidence that an impairment loss on receivables has been incurred. The Group does not hold any collateral or other credit enhancements over its trade receivable balances.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date (or date of revenue recognition, if earlier) and net of provisions, is as follows:

	30 June 2018 RMB'000 Unaudited	31 December 2017 RMB'000 Audited
0 — 90 days	405,827	348,463
91 — 180 days	20,650	20,718
Over 180 days	327,005	408,451
	753,482	777,632

As at 30 June 2018, included in the Group's trade receivable balances are government dismantling tariffs provided by the PRC government for treatment of certain waste electric and electronic products with an aggregate carrying amount of approximately RMB367,198,000 (31 December 2017: RMB449,733,000). Included in the government dismantling tariffs are balances amounting to RMB321,337,000 (31 December 2017: RMB408,080,000) with ageing over 180 days. The Group does not hold any collateral over these balances. In the opinion of the directors of the Company, the credit risk on these balances is limited because the customers are government authorities.

Included in the provision for impairment is a provision of RMB2,304,000 (31 December 2017: RMB2,036,000) for individually impaired trade receivable with a carrying amount before provision of RMB2,663,000 (31 December 2017: RMB2,395,000). The impairment is considered irrecoverable by management after consideration of the credit quality of those individual customers based on the amounts subsequently settled after period end, the ongoing relationship with the Group and the ageing of these receivables. The Group does not hold any collateral over these balances. Trade receivables are non-interest-bearing.

Included in the Group's trade receivable balances are amounts due from the Group's joint ventures of RMB12,437,000 (31 December 2017: RMB19,270,000) and amount due from the other operator of Waste Disposal Services of RMB610,000 (31 December 2017: RMB793,000), which are repayable on credit terms similar to those offered to the major customers of the Group.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

20. AMOUNTS DUE FROM ASSOCIATES

During the year ended 31 December 2015, SZ Guangye entered into two agreements with the Group for loans amounting to RMB35,966,000. In 2016, SZ Guangye repaid RMB4,600,000 to the Group, and declared a dividend amounting to RMB7,775,000 to the Group. The dividend was not paid by SZ Guangye, and was recognised as a loan to the entity by the Group. The loans bear interest at PRC Benchmark Lending Rate plus 20% per annum. The balance of RMB39,657,000 as at 30 June 2018 (31 December 2017: RMB39,141,000) represents the loans and interest receivables due from SZ Guangye.

During the year ended 31 December 2016, Beijing Lanjie entered into two agreements with the Group for (i) a loan of approximately RMB6,200,000 which is repayable on 11 July 2018, unsecured and bears interest at a fixed rate of 9% per annum; and (ii) a loan of approximately RMB2,400,000 which is secured and bears interest at a fixed rate of 11% per annum. The balance of RMB8,879,000 as at 30 June 2018 (31 December 2017: RMB8,600,000) represents the loans and interest receivables due from Beijing Lanjie.

21. TRADE PAYABLES

An aged analysis of trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	30 June 2018 <i>RMB'000</i> Unaudited	31 December 2017 <i>RMB'000</i> Audited
0 — 90 days	218,132	311,541
91 — 180 days	323,049	43,810
Over 180 days	143,360	49,804
	684,541	405,155

Included in the trade payables are amounts of RMB125,000 (31 December 2017: RMB126,000) and RMB1,552,000 (31 December 2017: RMB1,975,000) due to joint ventures and the other operator of Waste Disposal Services, respectively, with similar credit terms offered by them to their major customers.



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

22. OTHER PAYABLES AND ACCRUALS

	30 June 2018 RMB'000 Unaudited	31 December 2017 RMB'000 Audited
Receipt in advance	—	95,569
Accrued purchases	116,286	151,062
Interest payables	13,112	11,704
Amounts due to vendors of		
Beijing Lanjie	1,500	1,500
Jiangxi Ruijin Ai Si Environmental Electric Limited (江西瑞金愛思環保電力有限公司)	7,000	7,000
Anhui Capital Environmental Technology Company Limited (安徽首創環境科技有限公司)	1,000	1,000
Yongji Huaxinda Clean Energy Co., Ltd. (永濟市華信達清潔能源有限公司) (“Yongji Huaxinda”)	42,280	—
Shangrao Fengshun Solid Waste Treatment Co., Ltd. (上饒市風順生活垃圾處理有限公司) (“Shangrao Fengshun”)	41,941	—
Yingde Laohuyan Solid Waste Treatment Co., Ltd. (英德市老虎岩生活垃圾處理有限公司) (“Yingde Laohuyan”)	32,685	—
Loan from a former shareholder of a subsidiary	23,053	—
Other tax payable	30,914	40,537
Accrued payroll and severance payment	58,343	65,089
Others	22,556	16,032
	390,670	389,493

23. INTEREST-BEARING BANK AND OTHER BORROWINGS

	30 June 2018 RMB'000 Unaudited	31 December 2017 RMB'000 Audited
Secured bank and other borrowings (Notes)	2,285,509	1,104,595
Unsecured bank and other borrowings	3,535,840	3,594,106
	5,821,349	4,698,701
Carrying amount repayable:		
Within one year	3,285,317	3,145,327
More than one year, but not exceeding two years	1,067,301	919,710
More than two years, but not exceeding three years	301,262	344,204
More than three years, but not exceeding four years	155,885	86,669
More than four years, but not exceeding five years	742,235	29,240
Beyond five years	269,349	173,551
	5,821,349	4,698,701
Less: amounts due within one year shown under current liabilities	(3,285,317)	(3,145,327)
Non-current liabilities	2,536,032	1,553,374

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

23. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

Notes:

- (1) Bank loan of RMB25,000,000 as at 30 June 2018 (31 December 2017: RMB50,000,000) was secured by the prepaid lease payments and buildings with a carrying amount of RMB54,857,000 (31 December 2017: RMB82,470,000).
- (2) Bank loan of RMB77,500,000 as at 30 June 2018 (31 December 2017: RMB80,000,000) was secured by the service concession arrangement in Yangzhou Capital Environmental Energy Investment Limited (揚州首創環保能源有限公司).
- (3) Bank loans of RMB837,800,000 as at 30 June 2018 (31 December 2017: RMB708,200,000) were guaranteed by the corporate guarantee of the Group.
- (4) Bank loan of RMB26,080,000 as at 30 June 2018 (31 December 2017: RMB29,660,000) was guaranteed by the corporate guarantee of a subsidiary of Beijing Capital Group.
- (5) Other loan of RMB197,172,000 from Beijing Guozi Financial Leaseing Company Limited (北京國資融資租賃股份有限公司) as at 30 June 2018 (31 December 2017: RMB236,735,000) was secured by the service concession arrangement in Nanchang Capital Environment Energy Co., Ltd. (南昌首創環保能源有限公司).
- (6) Other loans of RMB35,000,000 from Beijing Agricultural Investment and Finance Leasing Company Limited (北京農投融資租賃有限公司) and RMB39,233,000 from Beijing Agricultural Investment Commercial Factoring Company Limited (北京農投商業保理有限公司) as at 30 June 2018 (31 December 2017: nil) were secured by the service concession arrangement in Shangrao Fengshun.
- (7) Other loan of RMB47,724,000 from Beijing Agricultural Investment Commercial Factoring Company Limited as at 30 June 2018 (31 December 2017: nil) was secured by the service concession arrangement in Yingde Laohuyan.
- (8) Other loan of RMB1,000,000,000 from Ping An Asset Management Co., Ltd. (平安資產管理有限責任公司) as at 30 June 2018 (31 December 2017: nil) was secured by the corporate guarantee of Beijing Capital Group.

Included in bank borrowings is a loan of Hong Kong dollars (“HK\$”) 700,000,000 from Bank of China (Hong Kong) Limited with interest bearing at 1.35% per annum over Hong Kong Interbank Offer Rate, and with keepwell provided by Beijing Capital Group.

Included in other borrowings is a loan of NZ\$570,000,000 from BCG Chinastar which was unsecured, interest bearing at 5% per annum.

As at 30 June 2018, the Group had undrawn borrowing facilities amounting to RMB372,736,000 (31 December 2017: RMB1,728,807,000).

As at 30 June 2018, the Group’s bank and other loans of RMB3,992,406,000 were charged at fixed interest rates while RMB1,828,943,000 were charged at floating interest rates based on the benchmark interest rates announced by the People’s Bank of China. The carrying amounts of the Group’s current borrowings approximate to their fair values.



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

24. PROVISIONS

Provision is mostly made for the future costs of closing the Group's landfills in New Zealand at the end of their economic lives and for the associated post-closure costs, being the aftercare of the landfills for the prescribed periods. Estimated costs, adjusted for inflation, are built up on an item by item basis. The provision held, at each balance sheet date, represents the net present value of the estimated future costs. A detailed reassessment of these costs and the anticipated remaining lives of the landfills is performed regularly.

25. ISSUED CAPITAL Shares

	30 June 2018 RMB'000 Unaudited	31 December 2017 RMB'000 Audited
Issued and fully paid: 14,294,733,167 ordinary shares of HK\$0.1 each	1,188,219	<u>1,188,219</u>

26. BUSINESS COMBINATIONS

On 11 February 2018, Beijing Capital Environment Investment Limited (北京首創環境投資有限公司) ("Capital Investment"), an indirectly wholly-owned subsidiary of the Company, acquired 100% interest in Yingde Laohuyan from a third party. Yingde Laohuyan is engaged in municipal solid waste treatment. The consideration for the acquisition is RMB32,685,000.

On 13 February 2018, Capital Investment acquired 100% interest in Shangrao Fengshun from a third party. Shangrao Fengshun is engaged in waste treatment services. The consideration for the acquisition is RMB41,941,000.

On 22 May 2018, Capital Investment acquired 55% interest in Mianyang Lubo Lubricant Co., Ltd. (綿陽路博潤滑油脂有限公司, "Mianyang Lubo") from a third party. Mianyang Lubo is engaged in hazardous waste treatment services. The consideration for the acquisition is RMB32,390,000, with RMB20,000,000 paid on 30 May 2018.

On 12 June 2018, Capital Investment acquired 80% interest in Yongji Huaxinda from a third party. Yongji Huaxinda is engaged in waste treatment and waste-to-energy generation services. The consideration for the acquisition is RMB60,409,000, with RMB9,500,000 and RMB8,629,000 paid on 25 August 2017 and 30 May 2018, respectively.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

26. BUSINESS COMBINATIONS (Continued)

Assets acquired and liabilities registered at the dates of acquisitions were as follows:

	Yingde Laohuyan RMB'000	Shangrao Fengshun* RMB'000	Mianyang Lubo* RMB'000	Yongji Huaxinda RMB'000	Total RMB'000
Property, plant and equipment	82	1,322	10,411	151	11,966
Prepaid lease payment	—	—	4,058	—	4,058
Other intangible assets	—	—	1,500	—	1,500
Concession financial assets	80,156	63,289	—	—	143,445
Contract assets	—	—	—	121,334	121,334
Prepayments, deposits and other receivables	3,739	59,900	17,617	951	82,207
Inventories	—	—	174	—	174
Trade receivables	4,295	4,271	—	—	8,566
Cash and cash equivalents	735	698	13,138	161	14,732
Trade payables	(1,103)	(8,252)	—	(174)	(9,529)
Other payables and accruals	(290)	(3,879)	(317)	(32,085)	(36,571)
Tax payables	—	(2,413)	—	—	(2,413)
Interest-bearing bank and other borrowing	(50,088)	(74,763)	—	—	(124,851)
Deferred tax liabilities	(4,841)	—	—	(14,826)	(19,667)
Total identifiable net assets at fair value	32,685	40,173	46,581	75,512	194,951
Non-controlling interests	—	—	(20,957)	(15,103)	(36,060)
Goodwill on acquisitions	—	1,768	6,766	—	8,534
Satisfied by:					
Cash	—	—	20,000	8,629	28,629
Cash consideration paid in prior year	—	—	—	9,500	9,500
Cash consideration recorded in other payables	32,685	41,941	12,390	42,280	129,296
	32,685	41,941	32,390	60,409	167,425

* The purchase price allocation for Shangrao Fengshun and Mianyang Lubo was still in progress as at 30 June 2018. Under the acquisition agreements, the considerations of acquisitions were amounted to approximately RMB41,941,000 and RMB32,390,000, respectively, identifiable net assets have been recognised provisionally and unallocated goodwill of approximately RMB1,768,000 and RMB6,766,000, respectively, were recognised as at 30 June 2018. Management shall utilise the measurement period adjustment available in HKFRS 3 *Business Combinations* to revisit and retrospectively adjust these provisional values, if necessary.



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

26. BUSINESS COMBINATIONS (Continued)

An analysis of the cash flows in respect of acquisitions were as follows:

	Yingde Laohuyan <i>RMB'000</i>	Shangrao Fengshun <i>RMB'000</i>	Mianyang Lubo <i>RMB'000</i>	Yongji Huaxinda <i>RMB'000</i>	Total <i>RMB'000</i>
Cash consideration	—	—	(20,000)	(8,629)	(28,629)
Cash and cash equivalents	735	698	13,138	161	14,732
Net outflow of cash and cash equivalents included in cash flows from investing activities	735	698	(6,862)	(8,468)	(13,897)

27. COMMITMENTS

	30 June 2018 <i>RMB'000</i> Unaudited	31 December 2017 <i>RMB'000</i> Audited
Contracted, but not provided for:		
— construction work under service concession arrangements	1,037,891	800,263
— property, plant and equipment	234,945	71,083
	1,272,836	871,346

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

28. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets 30 June 2018

	Financial assets at fair value through profit or loss RMB'000	Loans and receivables RMB'000	Financial assets at fair value through other comprehensive income RMB'000	Total RMB'000
Financial assets at fair value through other comprehensive income	—	—	88,812	88,812
Concession financial assets	—	1,754,814	—	1,754,814
Trade receivables	—	753,482	—	753,482
Financial assets included in prepayments, deposits and other receivables	—	234,944	—	234,944
Derivative financial instruments	109	—	—	109
Amounts due from a shareholder	—	144	—	144
Amounts due from associates	—	48,536	—	48,536
Pledged deposits	—	4,000	—	4,000
Time deposits	—	12,500	—	12,500
Cash and cash equivalents	—	1,290,421	—	1,290,421
	109	4,098,841	88,812	4,187,762

31 December 2017

	Loans and receivables RMB'000	Available-for-sale investments RMB'000	Total RMB'000
Available-for-sale investments	—	95,041	95,041
Concession financial assets	2,043,977	—	2,043,977
Trade receivables	777,632	—	777,632
Financial assets included in prepayments, deposits and other receivables	145,360	—	145,360
Amounts due from associates	47,741	—	47,741
Pledged deposits	4,000	—	4,000
Time deposits	12,500	—	12,500
Cash and cash equivalents	892,790	—	892,790
	3,924,000	95,041	4,019,041



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

28. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

Financial liabilities

30 June 2018

	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade payables	—	684,541	684,541
Financial liabilities included in other payables and accruals	—	278,857	278,857
Interest-bearing bank and other borrowings	—	5,821,349	5,821,349
Derivative financial instruments	714	—	714
Amount due to a related party	—	1,665	1,665
	714	6,786,412	6,787,126

31 December 2017

	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade payables	—	405,155	405,155
Financial liabilities included in other payables and accruals	—	172,266	172,266
Interest-bearing bank and other borrowings	—	4,698,701	4,698,701
Amount due to a related party	—	1,376	1,376
Derivative financial instruments	1,727	—	1,727
	1,727	5,277,498	5,279,225

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

29. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts of the Group's financial instruments reasonably approximate to their fair values.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value :

As at 30 June 2018

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Financial assets				
Derivative financial instruments	—	109	—	109
Financial assets at fair value through other comprehensive income	67,672	—	21,140	88,812
	67,672	109	21,140	88,921

As at 31 December 2017

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Financial assets				
Available-for-sale investments	78,808	—	—	78,808



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

29. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

Liabilities measured at fair value:

As at 30 June 2018

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Financial liabilities				
Derivative financial instruments	—	714	—	714

As at 31 December 2017

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Financial liabilities				
Derivative financial instruments	—	1,727	—	1,727

30. CONTINGENT LIABILITIES

As at 30 June 2018, the Group provided guarantees of RMB626,000 (31 December 2017: RMB1,895,000) to a bank in respect of banking facilities granted to an associate. The directors of the Company consider that the fair values of the financial guarantees at date of inception and at the end of the reporting period are insignificant.

As at 30 June 2018, the Group provided guarantees of NZ\$42,203,000 (31 December 2017: NZ\$48,020,000) to the New Zealand government authorities in relation to continuous operation of landfills.

As at 30 June 2018, the Group provided guarantees of NZ\$14,963,000 (31 December 2017: NZ\$13,178,000) to the New Zealand government authorities in relation to the fulfillment the waste collection contracts and the requirements of other activities.

Guarantees given under the agreements entered into with the New Zealand government authorities on continuous operation of the landfills or for meeting the required operational standards. The amounts of the guarantees were determined based on the terms of the agreements signed by the subsidiary of the Group in New Zealand and the New Zealand government authorities. In the opinion of the directors, the entity will fulfill its responsibilities in relation to continuous operation of the landfills and meeting the required operational standards, therefore, there is low risk of the claims made against the Group under the guarantees.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

31. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these unaudited interim condensed financial statements, the Group entered into the following material related party transactions during the six months ended 30 June 2018.

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

The PRC subsidiaries of the Group operate in an economic environment currently predominated by entities controlled, jointly controlled or significantly influenced by the PRC government (“government-related entities”). The immediate shareholders of the Company, Beijing Capital (HK) and BCG Chinastar, which are companies incorporated in Hong Kong with limited liabilities, are ultimately controlled by the PRC government. The ultimate parent of both immediate shareholders is Beijing Capital Group, which is controlled by the State-owned Assets Supervision and Administration Commission of People’s Government of Beijing Municipality.

Beijing Capital Investment & Guarantee Co., Ltd. and Beijing Agricultural Investment Commercial Factoring Company Limited are subsidiaries of Beijing Capital Group.

(a) Transactions and balances with related parties within Beijing Capital Group:

Name of the related parties	Nature of the transactions	For the six months ended 30 June	
		2018 RMB'000 Unaudited	2017 RMB'000 Unaudited
Beijing Capital Investment & Guarantee Co., Ltd.	Guarantees charges*	289	661
Beijing Capital (HK)	Rental expenses**	733	902
BCG Chinastar	Interest expense***	64,395	68,778
Beijing Capital Group	Guarantees charges^	3,962	—
Beijing Capital Group	Keepwell fee^^	3,334	—
Beijing Agricultural Investment Commercial Factoring Company Limited	Interest expense^^^	1,505	—

* The guarantee charges were related to a borrowing of a subsidiary of the Company at 1.2% per annum of remaining principal amount.

** The rental expenses were charged in accordance with the relevant agreement.

*** The interest expenses were related to the loan of NZ\$570,000,000 from BCG Chinastar.

^ The guarantee charges were related to a borrowing of a subsidiary of the Company at 0.6% per annum of remaining principal amount.

^^ Beijing Capital Group provides the keepwell service for the loan of HK\$700,000,000 from Bank of China (Hong Kong). The keepwell fee is calculated based on 0.6% per annum of the loan.

^^^ The interest expenses were related to the loans from Beijing Agricultural Investment Commercial Factoring Company Limited with a fixed interest rate of 5% per annum.



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

31. RELATED PARTY TRANSACTIONS *(Continued)*

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

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

During the six months ended 30 June 2018, the Group recognised revenue from the construction services and operating services of RMB835,022,000 (six months ended 30 June 2017: RMB260,161,000) and RMB96,954,000 (six months ended 30 June 2017: RMB49,722,000), respectively under service concession arrangements with the local governments in the PRC (see note 16). All the concession financial assets of the Group are due from the local governments in the PRC.

As at 30 June 2018 and 31 December 2017, the advances paid for construction of infrastructure in service concession arrangements with the government-related entity, Urban Construction Institute, were disclosed in note 17.

As at 30 June 2018, trade receivables from government in relation to the licenses and franchises for the treatment of certain waste electric and electronic products were RMB367,198,000 (31 December 2017: RMB449,733,000).

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

31. RELATED PARTY TRANSACTIONS (Continued)

(ii) The transactions with non-government-related entities which are related to the Group are listed below:

	Notes	For the six months ended 30 June	
		2018 RMB'000 Unaudited	2017 RMB'000 Unaudited
Sales to related parties:			
Transwaste	(a)	50,356	50,491
Burwood Resource Recovery Park Limited	(b)	5,769	7,825
Pike Point Transfer Station	(a)	6,071	6,419
Midwest Disposals	(a)	2,586	2,871
Waste Disposal Services	(c)	2,581	2,577
		67,363	70,183
Purchases from related parties:			
Transwaste	(a)	16,998	14,312
Midwest Disposals	(a)	15,454	15,141
Pike Point Transfer Station	(a)	8,337	6,893
Waste Disposal Services	(c)	8,274	10,596
Daniels Sharpsmart New Zealand Limited	(a)	2,241	—
Burwood Resource Recovery Park Limited	(b)	66	53
		51,370	46,995
Interest income from related parties:			
SZ Guangye	(d)	1,023	739
Beijing Lanjie	(d)	542	404
		1,565	1,143

Notes:

- (a) The entity is a joint venture of the Group.
- (b) The entity is a subsidiary of the Group's joint venture.
- (c) The transactions are with the other operator of Waste Disposal Services.
- (d) The entity is an associate of the Group.



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

31. RELATED PARTY TRANSACTIONS *(Continued)*

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

	For the six months ended 30 June	
	2018 RMB'000 Unaudited	2017 RMB'000 Unaudited
Short-term benefits	11,717	6,600
Post-employment benefits	16	17
	11,733	6,617

32. EVENTS AFTER THE REPORTING PERIOD

There were no subsequent events that require adjustments to or disclosures in the interim condensed consolidated financial statements.

33. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 24 August 2018.

DISCLOSURE OF INTERESTS AND OTHER INFORMATION

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

As at 30 June 2018, none of the Directors, chief executives of the Company or their associates had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("the SFO")) that was required to be recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange.

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

As at 30 June 2018, the following shareholders (other than the Directors or chief executive of the Company whose interests and short positions in the shares or underlying shares of the Company as disclosed above) had interests or short positions in the shares and underlying shares of the Company which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of shareholders	Capacity	Number of shares/underlying shares held	Approximate percentage of shareholdings
Beijing Capital (Hong Kong) Limited	Beneficial owner (Note 1)	6,449,026,736 (L)	45.11%
Beijing Capital Co., Ltd.	Interest of a controlled corporation (Note 1)	6,449,026,736 (L)	45.11%
BCG Chinastar International Investment Limited	Beneficial owner (Note 2)	3,116,767,072 (L)	21.80%
Beijing Capital Group Co., Ltd.	Interest of controlled corporations (Note 1 & 2)	9,565,793,808 (L)	66.92%

(L) denotes a long position

Note:

1. Beijing Capital (Hong Kong) Limited was a 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 Shares held by Beijing Capital (Hong Kong) Limited for the purposes of the SFO.
2. BCG Chinastar International Investment Limited is the wholly-owned subsidiary of Beijing Capital Group Co., Ltd.. Therefore, Beijing Capital Group Co., Ltd. is deemed to be interested in the shares held by BCG Chinastar International Investment Limited in accordance with the SFO.

Save as aforesaid, the Company has not been notified by any person who had any interest or short position in the shares or underlying shares of the Company as at 30 June 2018 which are required to be notified to the Company pursuant to Part XV of the SFO or which are recorded in the register required to be kept by the Company under Section 336 of the SFO.



DISCLOSURE OF INTERESTS AND OTHER INFORMATION (CONTINUED)

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 enquiries 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 2018.

CORPORATE GOVERNANCE PRACTICES

The Board believes that high standards of corporate governance are essential to the success of the Company and is committed to maintain a high level of corporate governance standards and practices. The Company has complied with all the code provisions set out in the Corporate Governance Code contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange during the period under review.

CHANGES IN INFORMATION OF DIRECTORS

Below are the changes of directors' information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the date of the Company's 2017 annual report:

Name of Director	Details of change
Executive Director: Ms. Zhang Meng	Re-designated as an executive director, the chairlady of the Board, authorised representative, member and chairlady of nomination committee and member of remuneration committee of the Company.

AUDIT COMMITTEE

The audit committee comprises three independent non-executive directors, namely, Dr. Chan Yee Wah, Eva, Mr. Pao Ping Wing and Mr. Cheng Kai Tai, Allen. Dr. Chan Yee Wah, Eva has been appointed as the chairlady of the audit committee. The audit committee has reviewed the accounting principles and practices adopted by the Group and has also discussed auditing, risk management, internal controls and financial reporting matters including the review of the unaudited interim results for the six months ended 30 June 2018 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 2018 in accordance with Hong Kong Standard on Review Engagement 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. The auditors based on their review, concluded that nothing has come to their attention that causes them to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34 "Interim Financial Reporting".



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



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