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CAPITAL ENVIRONMENT HOLDINGS LIMITED

首創環境控股有限公司

(Incorporated in Cayman Islands with limited liability)

(Stock Code: 03989)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2022

The board of directors (the “Board”) of Capital Environment Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2022.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2022

	<i>Notes</i>	2022 RMB'000 Unaudited	2021 RMB'000 Unaudited Restated
CONTINUING OPERATION			
REVENUE	5	2,447,367	2,735,156
Cost of sales		<u>(1,749,702)</u>	<u>(1,968,323)</u>
Gross profit		697,665	766,833
Other income and gains	5	166,603	213,296
Selling expenses		(8,652)	–
Administrative expenses		(231,954)	(191,999)
Other expenses		(134,431)	(42,347)
Impairment losses on financial and contract assets, net		(8,021)	(26,473)
Finance costs	7	(244,356)	(250,454)
Share of profits and losses of associates		<u>(63)</u>	<u>(390)</u>

	<i>Notes</i>	2022 RMB'000 Unaudited	2021 <i>RMB'000</i> Unaudited Restated
PROFIT BEFORE TAX FROM			
A CONTINUING OPERATION	6	236,791	468,466
Income tax expenses	8	<u>(44,279)</u>	<u>(156,877)</u>
PROFIT FOR THE PERIOD FROM			
A CONTINUING OPERATION		192,512	311,589
DISCONTINUED OPERATION			
Profit for the period from a discontinued operation	9	<u>150,878</u>	<u>4,365</u>
PROFIT FOR THE PERIOD		<u>343,390</u>	<u>315,954</u>
Attributable to:			
Owners of the parent		270,512	257,409
Owners of the preference shareholders		27,163	26,244
Non-controlling interests		<u>45,715</u>	<u>32,301</u>
		<u>343,390</u>	<u>315,954</u>
EARNINGS PER SHARE ATTRIBUTABLE TO			
ORDINARY EQUITY HOLDERS OF			
THE PARENT	10		
Basic and diluted			
– For profit for the period		<u>RMB1.89 cents</u>	<u>RMB1.80 cents</u>
– For profit from continuing operation		<u>RMB1.35 cents</u>	<u>RMB1.78 cents</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME*For the six months ended 30 June 2022*

	2022 <i>RMB'000</i> Unaudited	2021 <i>RMB'000</i> Unaudited
PROFIT FOR THE PERIOD	343,390	315,954
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments arising during the period	(1,462)	(29,709)
Reclassification adjustments for gains included in the consolidated statement of profit or loss	4,603	34,810
Income tax effect	234	(619)
	<u>3,375</u>	4,482
Exchange differences:		
Exchange differences on translation of foreign operations	(428,129)	(27,180)
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	<u>(424,754)</u>	(22,698)
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Equity investments designated at fair value through other comprehensive income:		
Changes in fair value	352	(109)
Exchange differences:		
Exchange differences on translation of the parent company	223,531	(49,363)
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	<u>223,883</u>	(49,472)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	(200,871)	(72,170)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	142,519	243,784
Attributable to:		
Owners of the parent	103,636	232,977
Owners of the preference shareholders	27,163	26,244
Non-controlling interests	11,720	(15,437)
	<u>142,519</u>	<u>243,784</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2022

		30 June 2022	31 December 2021
	<i>Notes</i>	RMB'000	RMB'000
		Unaudited	Audited
NON-CURRENT ASSETS			
Property, plant and equipment	12	629,999	2,439,493
Right-of-use assets		69,908	1,310,731
Goodwill		36,674	1,941,793
Other intangible assets	13	3,809,076	4,924,125
Investments in joint ventures		–	401,708
Investments in associates		40,216	40,406
Trade receivables	16	140,032	193,676
Equity investments designated at fair value through other comprehensive income		17,017	16,665
Deferred tax assets		10,417	10,803
Concession financial assets	14	6,569,147	5,796,419
Contract assets		2,446,721	2,707,184
Prepayments, other receivables and other assets	15	113,141	159,472
Pledged deposits		3,031	3,026
		<hr/>	<hr/>
Total non-current assets		13,885,379	19,945,501
CURRENT ASSETS			
Inventories		65,920	66,441
Concession financial assets	14	1,561,647	1,131,642
Contract assets		309,533	208,820
Trade receivables	16	1,394,847	1,444,970
Prepayments, other receivables and other assets	15	4,107,932	1,157,724
Derivative financial instruments		23,073	1,766
Amounts due from associates		–	1,954
Tax recoverable		–	4,881
Pledged deposits		34,890	34,720
Cash and cash equivalents		1,890,100	1,682,745
		<hr/>	<hr/>
Assets of disposal groups classified as held for sale	17	9,387,942	5,735,663
		<hr/>	<hr/>
Total current assets		16,742,454	6,227,738

		30 June 2022	31 December 2021
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
		Unaudited	Audited
CURRENT LIABILITIES			
Trade payables	18	1,971,253	2,062,996
Other payables and accruals		246,226	564,883
Deferred income		14,402	11,464
Derivative financial instruments		–	5,106
Interest-bearing bank and other borrowings	19	4,436,600	3,960,026
Lease liabilities		–	75,471
Amounts due to related parties		15,698	9,153
Tax payable		103,452	237,993
		6,787,631	6,927,092
Liabilities directly associated with the assets classified as held for sale	17	5,675,430	195,836
Total current liabilities		12,463,061	7,122,928
NET CURRENT ASSETS/(LIABILITIES)		4,279,393	(895,190)
TOTAL ASSETS LESS CURRENT LIABILITIES		18,164,772	19,050,311
NON-CURRENT LIABILITIES			
Deferred income		280,408	235,726
Interest-bearing bank and other borrowings	19	8,391,741	7,770,598
Lease liabilities		–	1,244,235
Corporate bonds	20	994,492	996,514
Deferred tax liabilities		668,895	868,804
Provisions		–	217,813
Total non-current liabilities		10,335,536	11,333,690
Net assets		7,829,236	7,716,621
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital		1,188,219	1,188,219
Other equity instruments		1,367,694	1,367,694
Reserves		3,785,782	3,654,983
		6,341,695	6,210,896
Non-controlling interests		1,487,541	1,505,725
Total equity		7,829,236	7,716,621

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2022

1. CORPORATE AND GROUP INFORMATION

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 located at 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 the People's Republic of China ("PRC").

2. BASIS OF PREPARATION

The interim condensed consolidated financial information of the Group for the six months ended 30 June 2022 has been prepared in accordance with Hong Kong Accounting Standard 34 ("HKAS 34") *Interim Financial Reporting*. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2021.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2021, except for the adoption of the following revised Hong Kong Financial Reporting Standards ("HKFRSs") for the first time for the current period's financial information.

Amendments to HKFRS 3
Amendments to HKAS 16
Amendments to HKAS 37
*Annual Improvements to
HKFRSs 2018-2020*

*Reference to the Conceptual Framework
Property, Plant and Equipment: Proceeds before Intended Use
Onerous Contracts – Cost of Fulfilling a Contract
Amendments to HKFRS 1, HKFRS 9, Illustrative Examples
accompanying HKFRS 16, and HKAS 41*

The nature and impact of the revised HKFRSs are described below:

- (a) Amendments to HKFRS 3 replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no business combination that occurred during the period, the amendments did not have any impact on the financial position and performance of the Group.
- (b) Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced while making property, plant and equipment available for use on or after 1 January 2021, the amendments did not have any impact on the financial position or performance of the Group.
- (c) Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.
- (d) *Annual Improvements to HKFRSs 2018-2020* sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are applicable to the Group are as follows:
- *HKFRS 9 Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Group has applied the amendment prospectively to financial liabilities that are modified or exchanged on or after 1 January 2022. As there was no modification of the Group's financial liabilities during the period, the amendment did not have any impact on the financial position or performance of the Group.
 - *HKFRS 16 Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying HKFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying HKFRS 16.

4. OPERATING SEGMENT INFORMATION

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.

With the New Zealand business being classified as a discontinued operation, the Group has only one reporting segment: waste treatment and waste-to-energy business in the PRC, of which the further details are included in this interim condensed consolidated financial information. Details of the discontinued operation and information on assets and liabilities of the disposal group held for sale are given in note 9.

5. REVENUE, OTHER INCOME AND GAINS

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

Revenue

	For the six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	Unaudited	Unaudited Restated
Revenue from contracts with customers	2,194,925	2,535,116
Effective interest income on concession financial assets	252,442	200,040
	<u>2,447,367</u>	<u>2,735,156</u>

Disaggregated revenue information for revenue from contracts with customers:

For the six months ended 30 June 2022

	For the six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	Unaudited	Unaudited Restated
Types of goods or services		
Construction services under service concession arrangements	1,042,240	1,735,775
Operation services under service concession arrangements	741,040	429,520
Electronic appliance dismantling	150,141	187,055
Operation services not under service concession arrangements	69,343	27,512
Others	192,161	155,254
	<u>2,194,925</u>	<u>2,535,116</u>
Timing of revenue recognition		
Goods transferred at a point in time	173,307	184,939
Services transferred over time	2,021,618	2,350,177
	<u>2,194,925</u>	<u>2,535,116</u>

Other income and gains

	For the six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	Unaudited	Unaudited Restated
Bank interest income	6,859	3,587
Other interest income	114,924	183,242
Gain on disposal of items of property, plant and equipment	–	14
Gain on disposal of an associate	–	5,401
Government grants	20,821	20,793
Fair value gains of a derivative instrument	23,230	–
Others	769	259
	<u>166,603</u>	<u>213,296</u>

6. PROFIT BEFORE TAX FROM A CONTINUING OPERATION

The Group's profit before tax from the continuing operation is arrived at after charging:

	For the six months ended 30 June	
	2022 <i>RMB'000</i> Unaudited	2021 <i>RMB'000</i> Unaudited Restated
Cost of services rendered for service concession arrangements	1,456,343	1,690,824
Cost of other services provided	135,660	108,153
Cost of inventories sold	157,699	169,346
Depreciation		
– Property, plant and equipment	27,058	14,722
– Right-of-use assets	1,534	6,001
Amortisation of other intangible assets	67,867	38,196
Research and development costs	29,888	7,482
Lease payments not included in the measurement of lease liabilities	8,926	2,884
Auditor's remuneration	2,553	1,167
Employee benefit expense (excluding directors' remuneration):		
Wages and salaries	93,986	96,498
Pension scheme contributions	25,565	19,830
Foreign exchange differences, net	93,972	35,221
Impairment of financial and contract assets, net:		
Impairment of trade receivables	4,238	8,179
Impairment of financial assets included in prepayments, other receivables and other assets	735	11,777
Impairment of concession financial assets and relevant contract assets	3,048	6,517
Written-down of assets classified as held for sale to fair value	7,895	–
Impairment of property, plant and equipment	–	4,989
Gain on disposal of items of property, plant and equipment	–	(14)
Gain on disposal of an associate	–	(5,401)

7. FINANCE COSTS

An analysis of finance costs from the continuing operation is as follows:

	For the six months ended 30 June	
	2022 RMB'000 Unaudited	2021 RMB'000 Unaudited Restated
Interest on bank and other borrowings	245,964	211,008
Interest on notes payable	–	59,193
Interest on corporate bonds (note 20)	18,351	18,333
Interest on lease liabilities	–	189
	<hr/>	<hr/>
Total interest	264,315	288,723
Less: Interest capitalised	21,560	40,921
	<hr/>	<hr/>
	242,755	247,802
Others	1,601	2,652
	<hr/>	<hr/>
	244,356	250,454
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8. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2021: 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 2021: 10%) on the interest income recognised by a subsidiary in Hong Kong from a subsidiary in New Zealand.

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	
	2022 RMB'000 Unaudited	2021 RMB'000 Unaudited Restated
Current income tax:		
– Hong Kong	11,909	17,022
– Mainland China	(60,571)	51,428
Deferred	92,941	88,427
	<hr/>	<hr/>
Total tax charge for the period from the continuing operations	44,279	156,877
Total tax charge for the period from the discontinued operation	3,359	(4,244)
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	47,638	152,633
	<hr/> <hr/>	<hr/> <hr/>

9. DISCONTINUED OPERATION

On 31 March 2022, BCG NZ Investment Holding Limited (“BCG NZ”), a non-wholly owned subsidiary of the Company, entered into an agreement and has conditionally agreed to sell its entire interest in Beijing Capital Group NZ Investment Holding Limited (“NZSPV”), which, together with its subsidiaries, operate the waste treatment and waste-to-energy business in New Zealand. The proposed transaction is expected to be completed within 12 months and NZSPV and its subsidiaries were classified as a disposal group held for sale and as a discontinued operation.

With NZSPV and its subsidiaries (the “Disposal Group”) being classified as a discontinued operation, the New Zealand business is no longer included in the note for operating segment information.

The results of the Disposal Group for the period are presented below

	For the six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	Unaudited	Unaudited Restated
Revenue	1,197,667	1,269,415
Cost of sales	(792,215)	(867,251)
Other income and gains	1,849	1,071
Administrative expenses	(159,245)	(205,701)
Other expenses	(1,525)	(31,733)
Finance costs	(120,659)	(193,433)
Share of profits of joint ventures	28,365	27,753
	<hr/>	<hr/>
Profit before tax from the discontinued operation	154,237	121
Income tax (<i>note 8</i>)	(3,359)	4,244
	<hr/>	<hr/>
Profit for the period from the discontinued operation	150,878	4,365
	<hr/> <hr/>	<hr/> <hr/>

The major classes of assets and liabilities of the Disposal Group classified as held for sale as at 30 June 2022 are as follows:

	30 June 2022 RMB'000 Unaudited
Assets	
Property, plant and equipment	1,789,253
Right-of-use assets	1,225,589
Goodwill	1,846,927
Other intangible assets	1,115,311
Investments in joint ventures	396,151
Trade receivables*	227,614
Prepayments, other receivables and other assets	70,892
Inventories	19,762
Tax recoverable	7,746
Cash and cash equivalents	124,909
Others	5,470
	<hr/>
Assets classified as held for sale	6,829,624
	<hr/>
Liabilities	
Trade payables*	80,562
Other payables and accruals	244,698
Interest-bearing bank borrowings	63,581
Loan and interest receivables due to the continuing operation	3,279,076
Lease liabilities	1,307,654
Deferred tax liabilities	272,737
Provisions	173,514
Derivative financial instruments	636
	<hr/>
Liabilities directly associated with the assets classified as held for sale	5,422,458
	<hr/>
Net assets directly associated with the Disposal Group	1,407,166
	<hr/> <hr/>
Exchange reserve on translation of the foreign operation	(340,133)
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* Included in the trade receivable balances of the Disposal Group are amounts due from the Group's joint ventures of RMB11,350,000 (31 December 2021: RMB13,039,000) and an amount due from the other operator of Waste Disposal Services of RMB338,000 (31 December 2021: RMB531,000), which are repayable on credit terms similar to those offered to the major customers of the Disposal Group.

Included in the trade payables are amounts of RMB1,427,000 (31 December 2021: RMB448,000) and RMB2,767,000 (31 December 2021: RMB2,800,000) due to joint ventures and the other operator of Waste Disposal Services, respectively, with similar credit terms offered by them to their major customers.

The net cash flows incurred by the Disposal Group are as follows:

	For the six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	Unaudited	Unaudited
Operating activities	297,461	267,334
Investing activities	(139,665)	(95,063)
Financing activities	(151,320)	(234,534)
Effect of foreign exchange rate changes	(3,907)	(3,153)
	<u>2,569</u>	<u>(65,416)</u>
Net cash flow	<u>2,569</u>	<u>(65,416)</u>

The basic and diluted earnings per share from the discontinued operation is RMB0.54 cent (six months ended 30 June 2021: RMB0.02 cent). The calculations of basic and diluted earnings per share from the discontinued operation are based on:

	For the six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	Unaudited	Unaudited
Profit attributable to ordinary equity holders of the parent from the discontinued operation	<u>76,948</u>	<u>2,226</u>
	Number of shares	
	2022	2021
Weighted average number of ordinary shares in issue during the period used in the basic and diluted earnings per share calculation	<u>14,294,733,167</u>	<u>14,294,733,167</u>

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

The calculation of the basic earnings per share (“EPS”) amounts is based on the profit for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 14,294,733,167 (six months ended 30 June 2021: 14,294,733,167) in issue during the period, as adjusted to reflect the rights issue during the period.

The Group had no potentially dilutive ordinary shares in issue during the six months ended 30 June 2022 and 2021.

The calculation of basic earnings per share is based on:

	For the six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	Unaudited	Unaudited
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation		
From the continuing operation	193,564	255,183
From the discontinued operation	76,948	2,226
	<u>270,512</u>	<u>257,409</u>
	Number of shares	
	2022	2021
Shares		
Weighted average number of shares in issue during the period used in the basic earnings per share calculation	<u>14,294,733,167</u>	<u>14,294,733,167</u>

11. DIVIDENDS

No dividend was paid or proposed by the Company during the six months ended 30 June 2022 and 2021.

12. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2022, the Group acquired assets with a cost of RMB166,214,000 (six months ended 30 June 2021: RMB187,054,000).

During the six months ended 30 June 2022, no assets (other than those classified as held for sale) were disposed by the Group (six months ended 30 June 2021: RMB5,370,000), resulting in no gain on disposal (six months ended 30 June 2021 before restatement: RMB751,000) of items of property, plant and equipment.

During the six months ended 30 June 2022, no impairment loss (six months ended 30 June 2021: RMB4,989,000) was recognised for certain property, plant and equipment.

13. OTHER INTANGIBLE ASSETS

For the six months ended 30 June 2022, addition in other intangible assets arising from service concession arrangements of RMB48,030,000 is mainly due to the completion of the construction of a BOT project operated by Nanchang Capital Environment Energy Co., Ltd. (南昌首創環保能源有限公司), which is engaged in waste incineration power generation.

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

14. CONCESSION FINANCIAL ASSETS AND CONTRACT ASSETS

The Group provides construction and operation services to the certain government authorities in Mainland China (“Grantor”) under the service concession arrangements, the consideration received or receivable by the Group is recognised in accordance with HKFRS 15. The consideration may be 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 5.00% to 6.56% for the six months ended 30 June 2022.

Service concession arrangements with certain government authorities in Mainland China 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.

An impairment analysis is performed at each reporting date using the probability of default method to measure expected credit losses. The probabilities of default rates are estimated based on published credit information of the Grantors. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forward-looking credit risk information. As at 30 June 2022, the probability of default applied ranging from 0.06% to 1.19% and the loss given default was estimated to be 45%. In addition, the Group also provided special loss allowance of RMB5,513,000 for a transportation project considering its increase in credit risk. The loss allowance was assessed to be RMB10,311,000 (31 December 2021: RMB7,262,000) as at 30 June 2022 in respect of the concession financial assets and relevant contract assets.

15. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	30 June 2022 RMB'000 Unaudited	31 December 2021 RMB'000 Audited
Advances to suppliers	96,360	183,027
Value added tax receivables	541,800	672,988
Loans receivable	5,024	5,003
Loan and interest receivables due from the Disposal Group	3,279,076	–
Prepayments for emission units	–	52,735
Tender deposits	157,470	188,803
Deposit for tax review (<i>note</i>)	–	25,446
Disposal receivable	60,134	117,166
Others	81,209	72,028
	<u>4,221,073</u>	<u>1,317,196</u>
Analysed for reporting purposes as:		
Current assets	4,107,932	1,157,724
Non-current assets	113,141	159,472
	<u>4,221,073</u>	<u>1,317,196</u>

Note: The amount was paid as a deposit in the form of a Tax Reserve Certificate for “Conditional Standover Order” to the Inland Revenue Department in Hong Kong by BCG NZ during this period for tax review in relation to BCG NZ’s interest income derived from New Zealand. The amount was repaid during this period.

16. TRADE RECEIVABLES

	30 June 2022 RMB'000 Unaudited	31 December 2021 RMB'000 Audited
Trade receivables	1,566,229	1,668,803
Impairment	(31,350)	(30,157)
	<u>1,534,879</u>	<u>1,638,646</u>
Analysed for reporting purposes as:		
Current assets	1,394,847	1,444,970
Non-current assets	140,032	193,676
	<u>1,534,879</u>	<u>1,638,646</u>

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 loss allowance, is as follows:

	30 June 2022 RMB'000 Unaudited	31 December 2021 RMB'000 Audited
0 – 90 days	525,258	817,594
91 – 180 days	214,763	171,264
Over 180 days	794,858	649,788
	<u>1,534,879</u>	<u>1,638,646</u>

17. ASSETS OF DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE

In addition to the Disposal Group disclosed in note 9, the Group has the other disposal group due to the disposal plan of Jiangsu Subei Waste Vehicles and Household Appliances Dismantling Recycling Limited (江蘇蘇北廢舊汽車家電拆解再生利用有限公司, “Jiangsu Subei”) as disclosed in the Group’s annual consolidated financial statements for the year ended 31 December 2021.

The assets held for sale due to Jiangsu Subei and liabilities directly associated with the assets are as follows:

	30 June 2022 RMB'000 Unaudited	31 December 2021 RMB'000 Audited
Assets classified as held for sale	524,888	479,939
Liabilities directly associated with the assets classified as held for sales	<u>252,972</u>	<u>195,836</u>
Net assets directly associated with Jiangsu Subei	<u>271,916</u>	<u>284,103</u>

In accordance with HKFRS 5, assets held for sale with a carrying amount of RMB140,895,000 were written down to their fair value, resulting in a loss of RMB7,895,000, which was included in profit or loss for the period.

18. 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 2022 RMB'000 Unaudited	31 December 2021 RMB'000 Audited
0 – 90 days	842,106	1,263,743
91 – 180 days	183,908	16,166
Over 180 days	945,239	783,087
	<u>1,971,253</u>	<u>2,062,996</u>

19. INTEREST-BEARING BANK AND OTHER BORROWINGS

	30 June 2022 RMB'000 Unaudited	31 December 2021 RMB'000 Audited
Secured bank and other borrowings	10,127,618	7,775,457
Unsecured bank and other borrowings	2,700,723	3,955,167
	<u>12,828,341</u>	<u>11,730,624</u>
Carrying amount repayable:		
Within one year	4,436,600	3,960,026
More than one year, but not exceeding two years	516,812	1,101,971
More than two years, but not exceeding five years	3,958,284	3,550,639
Beyond five years	3,916,645	3,117,988
	<u>12,828,341</u>	<u>11,730,624</u>
Less: amounts due within one year shown under current liabilities	4,436,600	3,960,026
Non-current liabilities	<u>8,391,741</u>	<u>7,770,598</u>

Notes:

- (1) Bank loans of RMB282,580,000 as at 30 June 2022 (31 December 2021: RMB234,130,000) were guaranteed by the corporate guarantee of the Group.
- (2) Bank loans of RMB1,101,729,000 as at 30 June 2022 (31 December 2021: RMB942,022,000) were secured by service concession arrangements in two subsidiaries of the Company which are engaged in waste incineration power generation and two other which are engaged in kitchen waste treatment.
- (3) Bank loans of RMB4,029,194,000 as at 30 June 2022 (31 December 2021: RMB3,163,366,000) were guaranteed by the corporate guarantee of the Group, and were secured by the service concession arrangements of twenty subsidiaries of the Company which are engaged in a variety of BOT projects.
- (4) A bank loan of RMB145,845,000 as at 30 June 2022 (31 December 2021: RMB158,346,000) was guaranteed by a corporate guarantee of the Group and Beijing Construction Engineering Group Co., Ltd (北京建工集團有限責任公司).
- (5) Other loan of RMB69,000,000 (31 December 2021: RMB69,000,000) from China Clean Development Mechanism Fund (中國清潔發展機制基金) as at 30 June 2022 was secured by the service concession arrangement in Fuzhou Capital Haihuan Environmental Technology Co., Ltd (福州首創海環環保科技有限公司).
- (6) Bank loans of RMB176,682,000 as at 30 June 2022 (31 December 2021: RMB202,327,000) were guaranteed by the corporate guarantee of the Group, and were secured by the leasehold land and buildings with a carrying amount of RMB37,537,000 (31 December 2021: RMB55,121,000).

- (7) Other loan of RMB38,978,000 from Beijing Guozi Financial Leasing Co., Ltd. (北京國資融資租賃股份有限公司) as at 30 June 2022 (31 December 2021: RMB47,990,000) was secured by the service concession arrangement in Zhejiang Zhuoshang Environmental Energy Company Limited (浙江卓尚環保能源有限公司).
- (8) Other loans of RMB244,704,000 from China Merchants Bank Financial Leasing Co., Ltd. (招銀金融租賃有限公司) as at 30 June 2022 (31 December 2021: RMB155,873,000) were guaranteed by the corporate guarantee of the Group, and were secured by the service concession arrangement in Duyun Capital Environment Company Limited (都勻市首創環保有限公司) and Renqiu Capital Environmental Treatment Company Limited (任丘首創環境治理有限公司).
- (9) Other loan of RMB700,000,000 from Ping An Asset Management Co., Ltd. (平安資產管理有限責任公司) as at 30 June 2022 (31 December 2021: RMB900,000,000) was guaranteed by a corporate guarantee of Beijing Capital Group Co., Ltd. (“Beijing Capital Group”, the ultimate holding company of the Company).
- (10) Bank loans of US\$300,000,000 (equivalent to approximately RMB2,004,544,000) from the Financial Institutions (the financial institutions which include Bank of China (Hong Kong) Limited as agent, The Hongkong and Shanghai Banking Corporation Limited as coordinator, and other banks) as at 30 June 2022 which was guaranteed by a corporate guarantee of Beijing Capital Eco-Environment Protection Group Co., Ltd. (“Capital Eco Group”, the intermediate holding company of the Company), and had the maturity date on 31 August 2024 with a floating interest rate of LIBOR+1.40% per annum.
- (11) Bank loans of NZ\$319,000,000 (equivalent to approximately RMB1,334,362,000) from Natixis, Hong Kong Branch as at 30 June 2022 which was guaranteed by a corporate guarantee of Beijing Capital Eco, and had the maturity date on 1 May 2023 with a floating interest rate based on Bank Bill Reference Rates.

Included in other borrowings is a loan of HK\$686,000,000 (equivalent to approximately RMB586,541,000 from Beijing Capital (Hong Kong) Limited (“Beijing Capital (HK)”), which is unsecured, bears interest at 4% per annum and has the maturity date on 20 June 2023.

20. CORPORATE BONDS

The Group’s corporate bonds were issued in May 2020. The movements of corporate bonds during the period are as follows:

	30 June 2022 RMB’000 Unaudited
Liabilities at 31 December 2021 (<i>note</i>)	1,014,859
Interest during the period	18,351
Interest paid during the period	(36,000)
	<hr/>
	997,210
Less: Interest to be paid within one year	(2,718)
	<hr/>
Liabilities at 30 June 2022	994,492
	<hr/> <hr/>

Note:

The balance includes the corporate bonds of RMB996,514,000 and interest of RMB18,345,000 which would be paid within one year as at 31 December 2021.

21. EVENT AFTER THE REPORTING PERIOD

During the subsequent period, a subsidiary of the Company, Huludao Kangte Jincheng Environment Management Company Limited (“Huludao Kangte”, 葫蘆島康達錦程環境治理有限公司) entered into an agreement that Huludao Kangte would early terminate its operation of the waste landfill in Huludao City, Liaoning Province and the local government would compensate for the termination of service concession arrangement with an amount of RMB79,026,000. The transfer of the project to the local government or its designator is expected to be completed in the second half year of 2022.

During the subsequent period, a subsidiary of the Company, Zibo Capital Solid Environment Technology Limited (“Zibo Capital”, 淄博首拓環境科技有限公司) was sued by its supplier for the construction service consideration of RMB83,200,000. The Group has just initiated the mediation process by the date of this report.

22. COMPARATIVE AMOUNTS

The comparative statement of profit or loss has been re-presented as if the operation discontinued during the period had been discontinued at the beginning of the comparative period (note 9).

MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2022, the global economic landscape witnessed vast changes amid the COVID-19 pandemic raging unabated around the world, the ongoing Russia-Ukraine conflict, and the U.S. Federal Reserve's unusual interest rate hikes. In June 2022, the United Nations released "World Economic Situation and Prospects 2022", projecting global economy to grow by only 3.1% and global inflation to increase to 6.7% in 2022. With inflation surging worldwide, the U.S. inflation rate has reached a 40-year high with the economy at risk of recession; the European economy has fallen into a "de facto stagnation"; and developed economies in Asia-Pacific have seen their currencies weaken, giving rise to a "J-curve effect". Thus, major central banks around the world have turned hawkish and embarked on a monetary tightening cycle. These instabilities disrupted global economic recovery, impacting real industries, investment confidence, social governance, global stock markets and other fields, and leading to drastic turbulence in global financial markets.

In respect of China's economic trends, the Chinese government continued to adhere to the keynote of seeking progress while maintaining stability and put more emphasis on maintaining stable growth. China has adopted proactive fiscal policies, enhanced its policy effectiveness, introduced prudent monetary policy and deepened supply-side structural reform to drive the economy forward in a stable manner. In the first half of 2022, Mr. Li Keqiang, Premier of the State Council of the PRC, said at the fifth Session of the 13th National People's Congress that the government would strengthen ecological conservation and environmental protection, intensify the battle against pollution, consolidate the achievements of the battle for blue sky, clear water and clean soil, promote the strategic national policy on carbon neutrality, accelerate the establishment of a green and low-carbon production and lifestyle based on carbon emission reduction, carbon absorption and carbon market transactions, thereby promoting the construction of ecological civilization and the harmonious coexistence of man and nature.

Under the guidance of its core business philosophy of "one organization, one goal, and acting in concert", Capital Environment Holdings Limited (the "Company", together with its subsidiaries, the "Group") worked out a comprehensive plan centered around the themes of integration, upgrading and development. The Company further adjusted its business strategy, continued to optimize its asset structure, promoted steadily the life-cycle project management, strengthened capacity building in various aspects, driving high-quality development of the Group.

In the first half the year, in respect of results of operations, the Group's total assets reached RMB30,628 million, representing an increase of 17.02% for the period; total net assets reached RMB7,829 million, representing an increase of 1.46% for the period; and net profit attributable to parent company amounted to RMB271 million, representing a year-on-year increase of 5.09%.

In terms of project reserves, the Group secured a total of 64 projects (including 26 waste-to-energy projects, 5 waste landfill projects, 6 organic waste treatment projects, 17 waste collection and transportation projects, 7 hazardous waste treatment projects, 1 waste electrical appliances dismantling project and 2 biomass electricity generation projects) in the PRC, with a total investment of approximately RMB18,250 million, of which RMB15,603 million had been invested as at 30 June 2022. The facilities are designed with an aggregate annual household waste treatment capacity of approximately 13.894 million tons and annual electrical and electronic equipment dismantling volume of approximately 1.2 million units. The said projects have gradually entered the construction and operation period. As at 30 June 2022, there were 59 domestic projects either under construction or in operation.

During the period, the Group's projects in operation or trial operation reached 51, including 21 waste-to-energy and biomass power generation projects, 3 waste landfill projects, 17 waste collection and transportation projects, 1 dismantling project, 6 organic waste treatment projects, and 3 hazardous waste treatment projects. Key tasks were carried out in an orderly manner according to the Group's scientific management plan. In the first half of the year, the Group completed domestic waste disposal of 3,979,800 tons, hazardous waste disposal of 25,500 tons, and a dismantling volume of 306,700 units, providing a total of 915 million kWh of on-grid electricity.

The Group has achieved initial success in the development of asset-light operations and further consolidated its asset-heavy operations. In terms of asset-light operations, the Group actively expanded its presence in the fields of environmental sanitation and cleaning, road greening and maintenance and site restoration business. As of 30 June 2022, the Group had secured 10 sanitation projects with annualized service fees of RMB193 million, of which 3 were newly contracted in the first half of the year with annualized service fees of RMB65,333,400; and 6 site restoration projects with an aggregate contract sum of RMB203 million, of which 1 was newly contracted in the first half of the year with a contract sum of RMB95 million. In terms of asset-heavy operations, the Group explored the potential of its existing projects to strengthen synergic effect, established four city-oriented companies in Nanchang, Huizhou, Xinxiang and Duyun and gave full play to the anchoring role of city-oriented companies in expanding market presence. During the period, an additional 1,480 tons per day of waste was contracted. In addition, the Group worked hard to develop steam supply business to increase revenue sources. In the future, the Group will consolidate its foundation to drive business development, enhance investment team building, strengthen its resource integration capability, grasp market opportunities and ensure the implementation of key projects.

In terms of engineering construction, the Group continued to focus on improving project quality and deepening cost reduction and efficiency enhancement, fully implemented whole-process construction cost management, and further improved its construction management capability. The Group has a total of 8 projects under construction, of which Jishou incineration project and Nanchang incineration phase II project has completed construction and 72+24-hour trial runs; and over 80% construction works of the incineration projects in Tanghe, Zhumadian and Nanle have completed on average.

In terms of operation improvement, the Group aimed to improve efficiency and increase economic benefits, and attached importance to key factors such as subsidy adjustment for waste treatment, power generation per tonne, commencement of commercial operation, technological transformation and centralised procurement, so as to promote the overall development through local imperatives, achieve profit growth of businesses, and improve operating efficiency of projects. The following improvements were completed in the first half of 2022:

- Increase in power generation per tonne: Through technological transformation, quality improvement of wastes, refined management and enterprise-specific policy, the on-grid power generation per tonne of the existing projects (including 17 projects) increased by 8.43% as compared with last year.
- Commencement of commercial operation: 6 projects have been approved for commercial operation, including incineration projects in Shenzhou, Duchang, Yutian, Suichuan and Qixian and the biomass power generation project in Qixian.
- Promotion of technological transformation: Based on the appraisal results of technological transformation in 2021, the Group continued to promote three types of common technological transformation such as water-cooled hopper, and review over 100 items of the annual technological transformation plans of the project companies.
- Centralised procurement: A sophisticated procurement management system has been established. During the period, the Group completed seven categories of centralised procurement and one bidding price adjustment, leading to an increase of approximately RMB20.29 million in profit.

In terms of technological research and development, the Group took the technological innovation as the fundamental driving force for development, further empowered itself with technology, and continued to increase investment in research and development, so as to improve operating efficiency fundamentally. During the period, the Group set up a technology-enabled product library, and established an IPD process for technology products that are asset-heavy and with operational attributes in respect of various business forms under the solid waste segment. At the same time, based on the accumulation and standardisation of technical capabilities, the Group has been equipped with comprehensive solution capabilities, turnkey integration capabilities and other technology products, while the technology products can be expanded externally. The Group has sorted out a number of mature technical products, with contracts exceeding RMB49 million have

been secured. In addition, the Group focused on technology research and development on special projects, including three major aspects for technology research and development:

- I. The Group pressed ahead the in-depth integration of industry, university and research institute, participated in two national-level key special research projects, and continuously enhanced its research and development capabilities. In particular, it completed the pre-applications for the “Technology and Equipment for Small-sized In-situ and Rapid Start-stop and Safe Disposal of Medical Wastes” and the “Technology and Equipment for Refined Utilisation and Collaborative Carbon Reduction of Solid Wastes in Beijing-Tianjin-Hebei Region”.
- II. The Group completed the application and review for the first batch of research and development projects in 2022, and promoted the research and development of high-quality internal research projects. In particular, the preliminary review and pre-assessment of 11 internal research projects were completed to tackle the difficulties and key challenges in the projects.
- III. With unified management, unified coordination, resource sharing and strengthened patent layout, the Group applied for 9 new patents (including 1 invention patent) and 58 authorised patents (including 3 invention patents) in total in the first half of the year,

In terms of financing from the market, the Group continued to approach a number of domestic and overseas banks and investment institutions to develop feasible proposals. The Group has been actively refinancing the large financing facilities that are about to mature. During the period, the Group secured banking facilities totaling RMB4,395 million, of which RMB1,500 million was for the Group’s headquarters and RMB2,895 million was for the project companies.

In terms of the overseas market, in light of the latest market sentiment and uncertainties in international relations as well as the Group’s intention to focus on its waste treatment and waste-to-energy business development in the PRC, the Group proposed to dispose of all of its business segments in New Zealand in the period. It represents a good opportunity for the Group to realise its overseas investment for cash and reposition its strategic focus in the PRC, and is a key initiative of the Group’s business strategy. Looking forward, we believe that through the re-allocation and integration of overseas assets, the Group will be able to further develop its business in the PRC and deepen its cooperation with various parties of the industry to achieve sustainable development.

Embracing new aspirations, we are forging ahead for development. Although the global economy is in the doldrums, there still exist huge demand for environmental protection industry from China’s economic and social development while the Chinese government is providing strong support for the industry. Under such backdrop, the Group will fully implement the “14th Five-Year Plan” period-specific strategy and the deployment of “Eco+2025” strategic iteration of Beijing Capital Eco-Environment Protection Group Co., Ltd.. In adherence to the general keynote of “forging ahead and promoting stability with progress”, the Group will carry through the working concepts of “seeking development through integration and inspiring advancement through development”, to promote business development, transformation and upgrading. At the same time, the Group will continue to build a sound platform to promote development, stabilise the market share to consolidate development, and steadily strengthen fundamentals to seek development. The Group will strive to build its core competitiveness, further shore up weak spots, enhance advantages and consolidate the foundation. In addition, through establishing city-oriented

companies, the Group has become an urban environmental protection service enterprise that “serves a city”. With advanced management concepts and strategic synergy, high-quality operation services and highly competitive technology products, the Group empowers itself for sustainable development in multiple dimensions. We will push ahead high-quality industry development in an ecology-prioritised and green-oriented manner, boost quality and make breakthroughs by means of internal control improvement, innovation-driven development and technology-industry integration, thereby promoting ecological prosperity, economic prosperity and social prosperity, and realizing the harmonious coexistence of human and nature.

FINANCIAL REVIEW

Overview

During the period under review, the net profit attributable to the owners of the Company amounted to approximately RMB270,512,000, representing an increase of approximately 5.09% as compared to approximately RMB257,409,000 for the corresponding period of last year.

Continuing operations

Revenue from Waste Treatment and Waste-to-energy Business

During the period under review, the Group’s revenue from its continuing operation, the waste treatment and waste-to-energy business, reached approximately RMB2,447,367,000, representing a decrease of approximately 10.52% as compared to approximately RMB2,735,156,000 (restated) for the corresponding period last year, mainly due to a decrease in the total revenue as construction of certain projects had been completed successively in Mainland China, construction revenue decreased as compared with that of the corresponding period last year.

During the period under review, the gross profit margin of the Group was approximately 28.5%.

Selling and Administrative Expenses

During the period under review, the selling and administrative expenses from the Group’s continuing operation increased by approximately 25.3% to approximately RMB240,606,000. The increase was mainly due to the increase in legal and professional fees and increase in headcount for project operation.

Finance Costs

The finance costs decreased by approximately 2.4% to approximately RMB244,356,000 as compared to RMB250,454,000 (restated) for the corresponding period last year. The decrease was mainly due the replacement of the bonds in the amount of US\$300 million with a three-year syndicated US dollar loan in September 2021.

Discontinued operation

On 31 March 2022, BCG NZ Investment Holding Limited, a non-wholly owned subsidiary of the Company, entered into an agreement, pursuant to which, BCG NZ Investment Holding Limited conditionally agreed to sell its entire interest in Beijing Capital Group NZ Investment Holding Limited (“NZSPV”), namely, the waste treatment and waste-to-energy businesses operated by NZSPV together with its subsidiaries in New Zealand. As the proposed transaction is expected to be completed within 12 months, NZSPV together with its subsidiaries have been classified as a disposal group held for sale and as a discontinued operation. Please refer to note 9 to the interim condensed consolidated financial information for details. The comparative amounts in the interim condensed consolidated statement of profit or loss have been re-presented as if the operation discontinued during the period had been discontinued at the beginning of the comparative period.

Financial Position

As at 30 June 2022, the Group had total assets of approximately RMB30,627,800,000, and net assets attributable to owners of the Company were approximately RMB6,341,700,000, and the gearing ratio (which is calculated on the basis of total liabilities over total assets) was 74.44%, an increase of 3.92 percentage points from 70.52% as at the end of 2021, mainly due to an increase in borrowings of the subsidiaries in Mainland China to meet their investment needs. The current ratio (which is calculated on the basis of current assets over current liabilities) increased from approximately 0.87 as at 31 December 2021 to approximately 1.34, mainly due to the replacement of the bonds in the amount of US\$300 million with a three-year syndicated US dollar loan in September 2021.

Financial Resources

The Group finances its operations primarily with internally generated cash flow, equity financing, debt financing and loan facilities from banks. As at 30 June 2022, the Group had cash and bank balances and pledged bank deposits of approximately RMB1,928,021,000, representing an increase of approximately RMB207,530,000 as compared to approximately RMB1,720,491,000 at the end of 2021. The increase was mainly attributable to the refunded tax received by and additional borrowings of domestic project companies during the period under review. Currently, most of the Group’s cash is denominated in US\$, HK\$ and RMB.

Borrowings

As at 30 June 2022, the Group had outstanding borrowings of approximately RMB12,828,341,000, representing an increase of approximately RMB1,097,717,000 as compared to approximately RMB11,730,624,000 at the end of 2021. The borrowings comprised secured loans of approximately RMB10,127,618,000 and unsecured loans of approximately RMB2,700,723,000. The borrowings are denominated in US\$, HK\$ and RMB. Approximately 12.4% and 87.6% of the borrowings are at fixed rate and variable rate, respectively.

As at 30 June 2022, undrawn borrowing financing of the Group was RMB3,403,061,000.

Foreign Exchange Exposure

The majority of the Group's sales, purchases and operating expenses were denominated in US\$, HK\$, RMB and NZ\$. Although the Group has been and will continue to be exposed to foreign currency exchange risks, the board of directors of the Company ("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 2022, the Group's guarantee for certain bank financing included certain proceeds from the Group's service concession arrangements, bank balances of RMB3,031,000, and leasehold land and buildings of RMB37,537,000.

Pledged bank deposits of RMB34,890,000 for service concession arrangements were required by the local governments for securing the progress of certain BOT projects.

Capital Commitment Arrangements

As at 30 June 2022, the Group had capital commitment of approximately RMB695,669,000 and RMB89,064,000 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 2022, the Group provided guarantees of approximately RMB343,242,000 to the government authorities of New Zealand in respect of the continuous operation or the fulfillment of required operating standards of the landfill sites and performance guarantees of approximately RMB211,153,000 to the government authorities of the PRC in respect of the construction progress and continuous operation of the projects in the PRC.

A subsidiary of the Group was claimed by a former shareholder in the amount of RMB38,958,000 in a legal proceeding for an equity transfer. The Group has recognised a provision of RMB20,000,000 and a contingent liability of RMB18,958,000 in relation to this legal proceeding.

Employee Information

As at 30 June 2022, the Group had about 5,233 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 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 2022 (six months ended 30 June 2021: nil).

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as its own code for dealing in securities of the Company by the directors of the Company (the "Directors"). The Company has made specific enquiries of all Directors regarding any non-compliance with the Model Code, and all Directors have confirmed that they had complied with the required standard set out in the Model Code throughout the six months ended 30 June 2022.

CORPORATE GOVERNANCE PRACTICES

The Board believes that high standards of corporate governance are essential to the success of the Company and is committed to maintaining 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 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") during the period under review.

AUDIT COMMITTEE

The audit committee of the Company (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 with the management on audit, internal controls and financial reporting matters, including the review of the unaudited interim results for the six months ended 30 June 2022.

In addition, the Group's external auditors (the "Auditors") performed an independent review of the interim financial information for the six months ended 30 June 2022 in accordance with Hong Kong Standard on Review Engagement 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. The Auditors based on their review, concluded that nothing has come to their attention that causes them to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34 "Interim Financial Reporting".

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement will be published on both the websites of the Company (www.cehl.com.hk) and of the Stock Exchange (www.hkexnews.hk). The interim report of the Company for the six months ended 30 June 2022 will be dispatched to the shareholders of the Company and published on the aforesaid websites in due course.

By order of the Board
Capital Environment Holdings Limited
Cao Guoxian
Chairman

Hong Kong, 22 August 2022

As at the date of this announcement, the Board comprises three executive directors, namely Mr. Cao Guoxian, Mr. Li Fujing and Mr. Li Qingsong; one non-executive director, namely Ms. Hao Chunmei; and three independent non-executive directors, namely, Mr. Pao Ping Wing, Mr. Cheng Kai Tai, Allen and Dr. Chan Yee Wah, Eva.