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NEW ENVIRONMENTAL ENERGY HOLDINGS LIMITED

新環保能源控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 3989)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2013

The Board of Directors (the “Board”) of New Environmental Energy Holdings Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2013 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2013

| | <i>NOTES</i> | 2013 <i>HK\$'000</i> | 2012 <i>HK\$'000</i> |
|---|--------------|--------------------------------|--------------------------------|
| Continuing operations | | | |
| Revenue | 4 | 246,153 | 17,609 |
| Cost of sales | | (139,324) | (18,081) |
| Gross profit (loss) | | 106,829 | (472) |
| Other income, gains and losses | 5 | 82,138 | (27,568) |
| Loss on fair value change of embedded derivatives | 16 | (117,410) | (16,484) |
| Administrative expenses | | (71,637) | (68,057) |
| Share of results of an associate | | 11,556 | 7,874 |
| Finance costs | 6 | (55,884) | (50,839) |
| Loss before tax | 7 | (44,408) | (155,546) |
| Income tax credit | 8 | 1,846 | 2,869 |
| Loss for the year from continuing operations | | (42,562) | (152,677) |
| Discontinued operations | | | |
| Profit for the year from discontinued operations | | — | 4,852 |
| Loss for the year | | (42,562) | (147,825) |

| | <i>NOTE</i> | 2013 <i>HK\$'000</i> | 2012 <i>HK\$'000</i> |
|---|-------------|--------------------------------|-------------------------|
| Other comprehensive income (expense) | | | |
| <i>Items that will not be reclassified to profit or loss:</i> | | | |
| Exchange differences arising on translation: | | | |
| Exchange difference arising during the year | | 13,015 | 192 |
| Exchange difference arising from an associate during the year | | 3,332 | 779 |
| Reclassification adjustment upon disposal of subsidiaries | | <u>—</u> | <u>(3,607)</u> |
| Other comprehensive income (expense) for the year (net of tax) | | <u>16,347</u> | <u>(2,636)</u> |
| Total comprehensive expense for the year | | <u>(26,215)</u> | <u>(150,461)</u> |
| (Loss) profit for the year attributable to owners of the Company: | | | |
| — from continuing operations | | (124,370) | (151,906) |
| — from discontinued operations | | <u>—</u> | <u>4,852</u> |
| Loss for the year attributable to owners of the Company | | <u>(124,370)</u> | <u>(147,054)</u> |
| Profit (loss) for the year attributable to non-controlling interests: | | | |
| — from continuing operations | | 81,808 | (771) |
| — from discontinued operations | | <u>—</u> | <u>—</u> |
| Profit (loss) for the year attributable to non-controlling interests | | <u>81,808</u> | <u>(771)</u> |
| | | <u>(42,562)</u> | <u>(147,825)</u> |
| Total comprehensive (expense) income attributable to: | | | |
| Owners of the Company | | (108,476) | (150,310) |
| Non-controlling interests | | 82,261 | (151) |
| | | <u>(26,215)</u> | <u>(150,461)</u> |
| | | | (Restated) |
| Loss per share | | | |
| 10 | | | |
| From continuing and discontinued operations | | | |
| Basic | | <u>HK(3.77) cents</u> | <u>HK(8.50) cents</u> |
| Diluted | | <u>HK(3.77) cents</u> | <u>HK(8.50) cents</u> |
| From continuing operations | | | |
| Basic | | <u>HK(3.77) cents</u> | <u>HK(8.78) cents</u> |
| Diluted | | <u>HK(3.77) cents</u> | <u>HK(8.78) cents</u> |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2013

| | <i>NOTES</i> | 2013 <i>HK\$'000</i> | 2012 <i>HK\$'000</i> |
|--|--------------|--------------------------------|-------------------------|
| Non-current assets | | | |
| Property, plant and equipment | | 63,850 | 15,965 |
| Intangible assets | | 21,660 | 2,318 |
| Goodwill | | 13,810 | — |
| Prepaid lease payments | | 62,525 | 2,277 |
| Amounts due from grantors for contract work | 11 | 641,200 | 383,339 |
| Amount due from an investee | | — | 45,267 |
| Amount due from an associate | | — | 6,219 |
| Interest in an associate | | 116,719 | 101,831 |
| Deposits paid for construction of infrastructure in service concession arrangements | 12 | 222,282 | 174,981 |
| Deposits, prepayments and other receivables | | 10,256 | — |
| | | 1,152,302 | 732,197 |
| Current assets | | | |
| Inventories | | 23,972 | — |
| Trade receivables | 13 | 176,777 | 7,411 |
| Deposits, prepayments and other receivables | | 94,414 | 32,267 |
| Amounts due from grantors for contract work | 11 | 15,682 | 9,453 |
| Prepaid lease payments | | 1,270 | 52 |
| Amount due from an associate | | 14,883 | 12,708 |
| Pledged bank deposits | | 57,692 | — |
| Bank balances and cash | | 575,932 | 263,239 |
| | | 960,622 | 325,130 |
| Current liabilities | | | |
| Trade payables | 14 | 30,014 | 23,863 |
| Other payables and accruals | | 100,183 | 42,326 |
| Provisions | | 9,270 | 192,969 |
| Taxation payable | | 47,469 | 15,638 |
| Borrowings | 15 | 384,045 | 26,592 |
| Convertible notes | | 14,177 | — |
| Convertible bonds | 16 | 85,170 | — |
| Embedded derivatives | 16 | 149,112 | — |
| | | 819,440 | 301,388 |
| Net current assets | | 141,182 | 23,742 |
| Total assets less current liabilities | | 1,293,484 | 755,939 |

| | <i>NOTES</i> | 2013 <i>HK\$'000</i> | 2012 <i>HK\$'000</i> |
|--|--------------|-------------------------|-------------------------|
| Non-current liabilities | | | |
| Convertible notes | | — | 150,400 |
| Convertible bonds | 16 | — | 252,200 |
| Embedded derivatives | 16 | — | 54,152 |
| Borrowings | 15 | 607,077 | 239,899 |
| Deferred tax liabilities | | 6,903 | 8,071 |
| | | <u>613,980</u> | <u>704,722</u> |
| | | <u>679,504</u> | <u>51,217</u> |
| Capital and reserves | | | |
| Share capital | | 465,564 | 186,226 |
| Reserves | | 16,184 | (125,478) |
| | | <u>481,748</u> | <u>60,748</u> |
| Equity attributable to owners of the Company | | 197,756 | (9,531) |
| Non-controlling interests | | <u>679,504</u> | <u>51,217</u> |

Note:

1. GENERAL

The Company was incorporated in Cayman Islands under the Companies Law as an exempted company with limited liability on 27 May 2004 and its shares have been listed on the Main Board of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) with effect from 13 July 2006.

The principal activity of the Company and its subsidiaries is waste treatment and waste-to-energy business. The Group was also engaged in the trading of apparel and accessories which was discontinued in 2012.

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

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

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

| | |
|--|---|
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2009–2011 Cycle |
| Amendments to HKFRS 7 | Disclosures — Offsetting Financial Assets and Financial Liabilities |
| Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 | Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance |
| HKFRS 10 | Consolidated Financial Statements |
| HKFRS 11 | Joint Arrangements |
| HKFRS 12 | Disclosure of Interests in Other Entities |
| HKFRS 13 | Fair Value Measurement |
| HKAS 19 (as revised in 2011) | Employee Benefits |
| HKAS 27 (as revised in 2011) | Separate Financial Statements |
| HKAS 28 (as revised in 2011) | Investments in Associates and Joint Ventures |
| Amendments to HKAS 1 | Presentation of Items of Other Comprehensive Income |
| HK(IFRIC) — Int 20 | Stripping Costs in the Production Phase of a Surface Mine |

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

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In the current year, the Group has applied for the first time the package of five standards on consolidation, joint arrangements, associates and disclosures comprising HKFRS 10 *Consolidated Financial Statements*, HKFRS 11 *Joint Arrangements*, HKFRS 12 *Disclosure of Interests in Other Entities*, HKAS 27 (as revised in 2011) *Separate Financial Statements* and HKAS 28 (as revised in 2011) *Investments in Associates and Joint Ventures*, together with the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 regarding transitional guidance.

HKAS 27 (as revised in 2011) is not applicable to the Group as it deals only with separate financial statements.

The impact of the application of these standards is set out below.

Impact of the application of HKFRS 10

HKFRS 10 replaces the parts of HKAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements and HK(SIC) Int — 12 *Consolidation — Special Purpose Entities*. HKFRS 10 changes the definition of control such that an investor has control over an investee when a) it has power over the investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee.

Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in HKFRS 10 to explain when an investor has control over an investee.

Impact of the application of HKFRS 12

HKFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of HKFRS 12 has resulted in more extensive disclosures in the consolidated financial statements.

HKFRS 13 Fair Value Measurement

The Group has applied HKFRS 13 for the first time in the current year. HKFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements. The scope of HKFRS 13 is broad: the fair value measurement requirements of HKFRS 13 apply to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are within the scope of HKAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

HKFRS 13 defines the fair value of an asset as the price that would be received to sell an asset (or paid to transfer a liability, in the case of determining the fair value of a liability) in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, HKFRS 13 includes extensive disclosure requirements.

HKFRS 13 requires prospective application. In accordance with the transitional provisions of HKFRS 13, the Group has not made any new disclosures required by HKFRS 13 for the 2012 comparative period. Other than the additional disclosures, the application of HKFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

The directors of the Group are of the opinion that the application of HKFRS 13 has no material impact on the Group's fair value measurement as set out in these consolidated financial statements of the Group.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The Group has applied the amendments to HKAS 1 *Presentation of Items of Other Comprehensive Income*. Upon the adoption of the amendments to HKAS 1, the Group's 'statement of comprehensive income' is renamed as the 'statement of profit or loss and other comprehensive income'. Furthermore, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis — the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

New and revised HKFRSs issued but not yet effective

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

| | |
|--|---|
| Amendments to HKFRS 10, HKFRS 12 and HKAS 27 | Investment Entities ¹ |
| Amendments to HKAS 19 | Defined Benefit Plans: Employee Contributions ² |
| Amendments to HKFRS 9 and HKFRS 7 | Mandatory Effective Date of HKFRS 9 and Transition Disclosures ³ |
| HKFRS 9 | Financial Instruments ³ |
| Amendments to HKAS 32 | Offsetting Financial Assets and Financial Liabilities ¹ |
| Amendments to HKAS 36 | Recoverable Amount Disclosures for Non-Financial Assets ¹ |
| Amendments to HKAS 39 | Novation of Derivatives and Continuation of Hedge Accounting ¹ |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2010–2012 Cycle ⁴ |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2011–2013 Cycle ² |
| HK(IFRIC) — Int 21 | Levies ¹ |

¹ Effective for annual periods beginning on or after 1 January 2014

² Effective for annual periods beginning on or after 1 July 2014

³ Available for application — the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised

⁴ Effective for annual periods beginning on or after 1 July 2014, with limited exceptions

Annual Improvements to HKFRSs 2010–2012 Cycle

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

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

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

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

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

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

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

The directors do not anticipate that the application of the amendments included in the *Annual Improvements to HKFRSs 2010–2012 Cycle* will have a material effect on the Group's consolidated financial statements.

Annual Improvements to HKFRSs 2011–2013 Cycle

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

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

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

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

- (a) the property meets the definition of investment property in terms of HKAS 40; and
- (b) the transaction meets the definition of a business combination under HKFRS 3.

The directors do not anticipate that the application of the amendments included in the *Annual Improvements to HKFRSs 2011–2013 Cycle* will have a material effect on the Group's consolidated financial statements.

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

The amendments to HKAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements regarding the fair value hierarchy, key assumptions and valuation techniques used when the recoverable amount of an asset or CGU was determined based on its fair value less costs of disposal.

The directors of the Company do not anticipate that the application of these amendments to HKAS 36 will have a significant impact on the Group's consolidated financial statements.

3. SEGMENT INFORMATION

After the disposal of trading of apparel and accessories business during the year ended 31 December 2012, the Group has been operating with one reportable and operating segment only, being the waste treatment and waste-to-energy business. Since there is only one reportable and operating segment, no segment information except for entity-wide disclosure is provided.

The revenue of services is set out in Note 4.

Geographical information

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

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

| | Revenue from external customers | | Non-current assets | |
|-------------------------------|------------------------------------|------------------|--------------------|------------------|
| | 2013 HK\$'000 | 2012 HK\$'000 | 2013 HK\$'000 | 2012 HK\$'000 |
| Continuing operations | | | | |
| The PRC (country of domicile) | 246,153 | 17,609 | 510,274 | 296,846 |
| Hong Kong | — | — | 828 | 526 |
| | <u>246,153</u> | <u>17,609</u> | <u>511,102</u> | <u>297,372</u> |

Note: Non-current assets excluded financial instruments.

Information about major customers

During the year ended 31 December 2013, revenue from government authorities contributing over 89% (2012: 99%) of the total revenue of the Group in continuing operations amounted to approximately HK\$219,300,000 (2012: HK\$17,435,000) is attributable to the reportable segment of waste treatment and waste-to-energy business.

4. REVENUE

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

| | 2013 HK\$'000 | 2012 HK\$'000 |
|---|------------------|------------------|
| Continuing operations | | |
| Provisions of construction services under service concession arrangements | 202,807 | 16,004 |
| Provisions of operation services under service concession arrangements | 16,493 | 1,431 |
| Consultancy fee income | 26,853 | 174 |
| | <u>246,153</u> | <u>17,609</u> |

5. OTHER INCOME, GAINS AND LOSSES

| | 2013 <i>HK\$'000</i> | 2012 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Continuing operations | | |
| Bank interest income | 5,257 | 502 |
| Interest income on amount due from an associate | 1,124 | 1,376 |
| Effective interest income on amounts due from grantors for contract work | 36,258 | 12,177 |
| | <hr/> | <hr/> |
| Total interest income | 42,639 | 14,055 |
| Gain on disposal of property, plant and equipment | — | 5 |
| Impairment loss recognised in respect of deposits, prepayments and other receivables | (11,364) | (10,837) |
| Impairment loss recognised in respect of trade receivables | (7,526) | — |
| Impairment loss recognised in respect of deposits paid for construction of infrastructure in service concession arrangements | (1,237) | (6,158) |
| Reversal of (provision for) penalty charges in relation to construction of waste-to-energy plant | 103,409 | (11,207) |
| Gain on redemption of convertible bonds | 3,217 | — |
| Impairment loss recognised in respect of amount due from an investee | (46,770) | (14,595) |
| Others | (230) | 1,169 |
| | <hr/> | <hr/> |
| | 82,138 | (27,568) |

6. FINANCE COSTS

| | 2013 <i>HK\$'000</i> | 2012 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Continuing operations | | |
| Interest on: | | |
| Borrowings and overdrafts wholly repayable — within five years | 20,482 | 6,393 |
| Convertible bonds | 24,212 | 26,325 |
| Convertible notes | 11,190 | 18,121 |
| | <hr/> | <hr/> |
| | 55,884 | 50,839 |

7. LOSS BEFORE TAX

Loss before tax from continuing operations has been arrived at after charging (crediting):

| | 2013 <i>HK\$'000</i> | 2012 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Directors' and chief executive's emoluments | 4,783 | 5,986 |
| Staff costs (excluding directors) | | |
| — other staff costs | 22,956 | 18,011 |
| — retirement benefit scheme contribution | 3,643 | 3,038 |
| | <u>26,599</u> | <u>21,049</u> |
| Auditors' remuneration | 3,706 | 3,785 |
| Contract cost recognised for construction of waste treatment business (included in cost of sales) | 202,807 | 16,004 |
| Depreciation of property, plant and equipment | 2,547 | 2,124 |
| Amortisation of prepaid lease payments | 55 | 52 |
| Amortisation of intangible assets (included in administrative expenses) | 1,171 | 1,468 |
| Net exchange loss (gain) | 492 | (1,547) |
| Reversal of provision for expected losses in relation to service concession arrangements (included in cost of sales) | <u>(83,333)</u> | <u>—</u> |

8. INCOME TAX CREDIT

| | 2013 <i>HK\$'000</i> | 2012 <i>HK\$'000</i> |
|------------------------------|-------------------------|-------------------------|
| Continuing operations | | |
| Current income tax: | | |
| — Other jurisdictions | — | — |
| Deferred tax | <u>(1,846)</u> | <u>(2,869)</u> |
| | <u>(1,846)</u> | <u>(2,869)</u> |

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

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

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

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

| | 2013 <i>HK\$'000</i> | 2012 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Loss before tax (from continuing operations) | <u>(44,408)</u> | <u>(155,546)</u> |
| Tax at the domestic income tax rate of 25% | (11,102) | (38,887) |
| Tax effect of expenses not deductible for tax purpose | 53,498 | 21,752 |
| Tax effect of income not taxable for tax purpose | (56,705) | (3,421) |
| Tax effect of tax losses not recognised | 10,630 | 11,758 |
| Tax effect of share of profit of an associate | (2,889) | (1,969) |
| Tax effect of other deductible temporary differences not recognised | <u>4,722</u> | <u>7,898</u> |
| Income tax credit for the year (from continuing operations) | <u>(1,846)</u> | <u>(2,869)</u> |

9. DIVIDEND

No dividend was paid, or proposed during 2013, nor has any dividend been proposed since the end of the reporting period (2012: Nil).

10. LOSS PER SHARE

From continuing and discontinued operations

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

| | 2013 <i>HK\$'000</i> | 2012 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| <i>Loss</i> | | |
| Loss for the year attributable to owners of the Company for the purpose of basic and diluted loss per share | <u>(124,370)</u> | <u>(147,054)</u> |
| <i>Number of shares</i> | '000 | '000 |
| | (Note) | (Note) (Restated) |
| Weighted average number of ordinary shares for the purpose of basic and diluted loss per share | <u>3,301,638</u> | <u>1,731,010</u> |

Note: The weighted average number of ordinary shares for the purposes of basic and diluted loss per share have been adjusted for the bonus element of the rights issue. The weighted average number of ordinary shareholders for the year ended 2012 was restated retrospectively.

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

From continuing operations

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

Loss figures are calculated as follows:

| | 2013 <i>HK\$'000</i> | 2012 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Loss for the year attributable to owners of the Company | (124,370) | (147,054) |
| Add: Profit for the year from discontinued operations | <u>—</u> | <u>(4,852)</u> |
| Loss for the purpose of basic and diluted loss per share from continuing operations | <u>(124,370)</u> | <u>(151,906)</u> |

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

From discontinued operations

Basic and diluted earnings per share from discontinued operations is HK0.28 cents (restated) per share for the year ended 31 December 2012, based on the profit for the year from discontinued operation of approximately HK\$4,852,000 and the denominators detailed above for both basic and diluted earnings per share.

11. AMOUNTS DUE FROM GRANTORS FOR CONTRACT WORK

| | 2013 <i>HK\$'000</i> | 2012 <i>HK\$'000</i> |
|------------------------------------|-------------------------|-------------------------|
| Analysed for reporting purpose as: | | |
| Current asset | 15,682 | 9,453 |
| Non-current asset | <u>641,200</u> | <u>383,339</u> |
| | <u>656,882</u> | <u>392,792</u> |

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

Several subsidiaries of the Company entered into service concession arrangements with certain government authorities in the PRC (“Grantors”) in respect of their waste treatment and waste-to-energy businesses. These subsidiaries acted as operators in these service concession arrangements to construct waste treatment and waste-to-energy plants on a BOT basis, and operate and maintain the waste treatment and waste-to-energy plants at a specified level of serviceability on behalf of the relevant government authorities over the relevant service concession periods. The effective interest rates ranged from 3.6% to 13.58% during the year ended 31 December 2013 and 2012.

As at 31 December 2013, the major terms of the Group's significant service concession arrangements are set out as follows:

| Name of subsidiary as operator | Name of waste treatment and waste-to-energy plant | Location | Name of grantor | Service concession period | Waste treatment | Electricity generation | Status | 2013 HK\$'000 | 2012 HK\$'000 |
|---|--|--------------------|--|--|------------------------|------------------------|---------------------------------------|------------------|------------------|
| 北京市一清百瑪士綠色能源有限公司 (Beijing Yiqing Biomax Green Energy Park Co., Ltd.*) | 北京市董村分類綜合處理廠 (Beijing Dongcun, Sorting Comprehensive Treatment Plant*) ("Beijing Plant") | Dongcun, Beijing | 北京市市政管理委員會 (Beijing Municipal Administration Committee*) | January 2014 to December 2038 (25 years) (Note 3) | 930 tonnes (Note 3) | 36 million kWh | Under construction (Note 3) | 194,358 | 166,754 |
| 南昌百瑪士綠色能源有限公司 (Nanchang Biomax Green Energy Co., Ltd.*) | 南昌市垃圾焚燒發電廠 (Nanchang Solid Waste Incineration Power Generation Plant*) | Quanling, Nanchang | 南昌市環境管理局 (Nanchang City Environment Administration Bureau*) | 27 years after obtaining the approval for commercial operation (Note 2) | 1,200 tonnes | 131 million kWh | Under construction | 254,904 | 55,692 |
| 都勻市科林環保有限公司 (Duyun Kelin Environmental Company Limited*) (Note 1) | 都勻市生活垃圾填埋場 (Duyun Municipal Solid Waste Landfill Site*) | Duyun, Guizhou | 都勻市人民政府 (Duyun People's Government*) | June 2012 to June 2042 (30 years) | 300 tonnes | N/A | Operating | 141,914 | 130,366 |
| 甕安縣科林環保有限公司 (Weng'an Kelin Environmental Company Limited*) (Note 1) | 甕安縣生活垃圾填埋場 (Weng'an Municipal Solid Waste Landfill Site*) | Weng'an, Guizhou | 甕安縣人民政府 (Weng'an People's Government*) | 30 years after obtaining the approval for commercial operation (Note 2) | 150 tonnes | N/A | Trial run before commercial operation | 51,903 | 39,980 |

Note 1: The subsidiaries were acquired during the year ended 31 December 2012.

Note 2: The subsidiaries have not yet obtained approval for commercial operation at 31 December 2013.

Note 3: On 25 July 2013, the Company received a notice named "Notice of Accelerating the Construction of Dongcun Waste Sorting Comprehensive Treatment Plant" ("Notice") dated on 23 July 2013 from Beijing Municipal Administration Committee in relation to the amendments of the operational terms and conditions of Beijing Plant, in which the Group currently owns 60% interest. The Notice states that (i) the commencement of the concessionary period will be changed from 31 December 2008 to 1 January 2014 while the concessionary period will be ended at 31 December 2038 instead of 31 December 2034 stated in the original concessionary agreement; (ii) the minimum guaranteed volume of municipal waste will be increased from 360 tonnes to 500 tonnes per day; and (iii) the waste treatment capacity will increase from 650 tonnes to 930 tonnes per day.

For the year ended 31 December 2013, the Group acquired 60% equity interest of 新鄉市首拓環保能源有限公司 (Xinxiang Capital Solid Energy Limited*) ("Xinxiang Capital Solid") (Note 17), which has service concession arrangement in Henan. The project is still at a preliminary stage. Amounts due from grantors for contract work of approximately HK\$13,803,000 has been recognised as at 31 December 2013.

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

* for identification purpose only

The Group recognised revenue from construction services of approximately HK\$202,807,000 (2012: HK\$16,004,000) by reference to the stage of completion of the construction work and revenue from operation services of approximately HK\$16,493,000 (2012: HK\$1,431,000).

Provision for future loss in construction services is based on the difference between revenue and budgeted cost to be generated and incurred respectively from the commencement date of construction to the completion of construction of the Beijing Plant. Up to the year ended 31 December 2012, a total of HK\$90,088,000 was recognised as provision for expected loss in construction. Pursuant to the Notice received on 25 July 2013, the commencement of the concessionary period will be changed from 31 December 2008 to 1 January 2014 while the concessionary period will be ended at 31 December 2038 instead of 31 December 2034 stated in the original concessionary agreement together with the increase in minimum guaranteed volume of municipal waste from 360 tonnes to 500 tonnes per day. The management has reassessed the revenue that is expected to be generated from the operation of Beijing Plant and the budgeted cost to be incurred and a reversal of provision for expected loss of approximately HK\$83,333,000 was thus made for the year ended 31 December 2013.

Provision for penalty charge is based on penalty clause stated in the service concession agreement of Beijing Plant at RMB350,000 per week starting from the original commencement date of operation in January 2009 and up to the year ended 31 December 2012, provision of penalty of approximately HK\$101,886,000 was recognised. Pursuant to the Notice, the concessionary period is now commencing from January 2014. After seeking legal opinion provided by an independent lawyer, the directors of the Company considers that it is not likely for the grantor to charge the penalty on the Company and therefore provision made in prior years of approximately HK\$103,409,000 are fully reversed during the year ended 31 December 2013.

Pursuant to the service concession agreements, the Group is required to surrender these waste treatment and waste-to-energy plants to the grantors at a specified level of serviceability at the end of the respective service concession periods. As at 31 December 2013, provision of approximately HK\$1,025,000 (2012: HK\$995,000) has been recognised in respect of the contractual obligations to maintain or restore these waste treatment and waste-to-energy plants to specified conditions.

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

The amount represents advance payments to third party suppliers for purchase of materials and equipment, which have not yet been delivered to the Group at the end of the reporting period, for the construction of waste treatment and waste-to-energy plants in the PRC under service concession arrangements. Included in the deposits paid balance is advance payment to a third party supplier, 城市建設研究院 (Urban Construction Design & Research Institute*) (“Urban Construction Institute”), with aggregate carrying amount of approximately HK\$158,551,000 (31 December 2012: HK\$155,037,000). The Group has submitted a dispute with Urban Construction Institute to an arbitration committee, 南昌仲裁委員會 (Nanchang Arbitration Committee*), during the year ended 31 December 2012.

During the year ended 31 December 2013, the Nanchang Arbitration Committee issued the first order which determined that the contract entered into between the Group and Urban Construction Institute was invalid. In accordance with the legal opinion provided by a firm of independent lawyers not connected to the Group, the amount should be refunded to the Group taking into account the outcome of the first order. During the year ended 31 December 2013, Urban Construction Institute submitted a restitution to Nanchang Arbitration Committee for RMB5,980,000 (approximately HK\$7,667,000) as a compensation of the expenses incurred. As at 31 December 2013, the amount of restitution is yet to be finalised and is subjected to an independent third party to verify the validity of the expense amount. The estimated recoverable amount of the deposits of HK\$158,551,000 (2012: HK\$155,037,000), net of estimated allowable expenses incurred by Urban Construction Institute of RMB5,980,000 (approximately HK\$7,667,000) (2012: RMB5,000,000 (approximately HK\$6,158,000)), is expected to be recovered by the directors of the Company, taking into account the legal opinion provided by the independent lawyer.

* for identification purpose only

13. TRADE RECEIVABLES

| | 2013 <i>HK\$'000</i> | 2012 <i>HK\$'000</i> |
|------------------------------------|-------------------------|-------------------------|
| Trade receivables | 185,229 | 8,452 |
| Less: allowance for doubtful debts | <u>(8,452)</u> | <u>(1,041)</u> |
| | <u>176,777</u> | <u>7,411</u> |

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

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

| | 2013 <i>HK\$'000</i> | 2012 <i>HK\$'000</i> |
|---------------|-------------------------|-------------------------|
| 0–90 days | 24,154 | — |
| 91–180 days | 495 | — |
| 181–360 days | 152,128 | — |
| Over 360 days | <u>—</u> | <u>7,411</u> |
| | <u>176,777</u> | <u>7,411</u> |

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

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

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

Aging of trade receivables which are past due but not impaired

| | 2013 <i>HK\$'000</i> | 2012 <i>HK\$'000</i> |
|---------------|-------------------------|-------------------------|
| Overdue by: | | |
| 181–360 days | 152,128 | — |
| Over 360 days | <u>—</u> | <u>7,411</u> |
| | <u>152,128</u> | <u>7,411</u> |

* for identification purpose only

Movement in the allowance for doubtful debts

| | 2013 | 2012 |
|--|------------------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Balance at the beginning of the year | 1,041 | 100,915 |
| Exchange realignment | (115) | 8 |
| Impairment losses recognised | 7,526 | — |
| Impairment losses reversed | — | (853) |
| Eliminated on disposal of a subsidiary | — | (99,029) |
| | <hr/> | <hr/> |
| Balance at the end of the year | <u>8,452</u> | <u>1,041</u> |

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of approximately HK\$8,452,000 (2012: HK\$1,041,000) that are considered irrecoverable by the management after consideration of the credit quality of those individual customers based on the amounts subsequently settled after year end, the ongoing relationship with the Group and the aging of these receivables. The Group does not hold any collateral over these balances.

14. TRADE PAYABLES

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

| | 2013 | 2012 |
|---------------|------------------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| 0–90 days | 553 | 295 |
| 91–180 days | — | 41 |
| 181–360 days | 6,251 | 616 |
| Over 360 days | 23,210 | 22,911 |
| | <hr/> | <hr/> |
| | <u>30,014</u> | <u>23,863</u> |

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

15. BORROWINGS

| | 2013 <i>HK\$'000</i> | 2012 <i>HK\$'000</i> |
|-----------------------------|-------------------------|-------------------------|
| Bank loans | 651,948 | 72,450 |
| Other loans (<i>Note</i>) | 339,174 | 194,041 |
| | <u>991,122</u> | <u>266,491</u> |
| Borrowings | | |
| Secured loan | 936,307 | 193,096 |
| Unsecured loan | 54,815 | 73,395 |
| | <u>991,122</u> | <u>266,491</u> |

Note: Included in other loans, amounting to HK\$336,609,000 (2012: HK\$172,896,000), are loans advanced from related parties.

During the year ended 31 December 2013, the Group entered into a fixed-rate loan agreement with the substantial shareholder, Beijing Capital (Hong Kong) Limited (“Beijing Capital (HK)”), of the Group, of HK\$160,000,000, that will be due in October 2015. The balance is secured by the equity interest of subsidiaries and an associate held by the Group and carries interest at fixed rate of 5.13% per annum.

During the year ended 31 December 2012, the Group entered into three fixed-rate loan agreements (“Original Loan Agreements”) with Beijing Capital (HK) of RMB40,000,000 (approximately HK\$51,282,000), RMB21,000,000 (approximately HK\$26,923,000) and RMB36,000,000 (approximately HK\$46,154,000) that will be due in December 2012, August 2013 and August 2013 respectively. The balance is unsecured and carries interest at fixed rate of 7.2%, 6.9% and 6.9% per annum respectively. In November 2012, the Group entered into three supplementary loan agreements which were approved by the independent shareholders in December 2012 (i) to extend the respective term of the Original Loan Agreements for another 24 months and (ii) the loans under the Original Loan Agreements are secured by the entire equity interest of a subsidiary held by the Group.

During the year ended 31 December 2011, the Group and Simple Success Investment Limited (“Simple Success”), a substantial shareholder of the Company, entered into an agreement to transfer the principal amount of an unsecured loan and accrued interest with fixed interest rate of 4%, amounting to approximately HK\$50,000,000 and HK\$2,250,000, respectively, from an independent third party to Simple Success. Accordingly, as at 31 December 2012 and 2013, the loan of approximately HK\$52,250,000 is owed to Simple Success. In addition, the Group entered into a supplemental agreement with Simple Success in January 2012 for the extension of maturity date of the borrowing to June 2014.

The remaining borrowing represents the variable-rate borrowing loan of HK\$2,565,000 that will be repayable on demand with a non-controlling interest shareholder of a subsidiary. The balance is unsecured and carries interest at PRC Benchmark Loan Rate.

| | 2013 <i>HK\$'000</i> | 2012 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Carrying amount repayable: | | |
| Within one year | 384,045 | 26,592 |
| More than one year, but not exceeding two years | 186,321 | 179,302 |
| More than two years, but not exceeding three years | 33,859 | 6,878 |
| More than three years, but not exceeding four years | 47,590 | 7,973 |
| More than four years, but not exceeding five years | 73,821 | 8,856 |
| More than five years | 265,486 | 36,890 |
| | <u>991,122</u> | <u>266,491</u> |
| Less: Amounts due within one year shown under current liabilities | <u>(384,045)</u> | <u>(26,592)</u> |
| Amounts shown under non-current liabilities | <u>607,077</u> | <u>239,899</u> |

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

| | 2013 | 2012 |
|---|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| Fixed-rate borrowings: | | |
| Within one year | 374,878 | — |
| More than one year, but not exceeding two years | 160,000 | 172,896 |
| | 534,878 | 172,896 |
| Variable-rate borrowings: | | |
| Within one year | 9,167 | 26,592 |
| More than one year, but not exceeding two years | 26,321 | 6,406 |
| More than two years, but not exceeding three years | 33,859 | 6,878 |
| More than three years, but not exceeding four years | 47,590 | 7,973 |
| More than four years, but not exceeding five years | 73,821 | 8,856 |
| More than five years | 265,486 | 36,890 |
| | 456,244 | 93,595 |

As at 31 December 2013, the Group's fixed rate bank borrowings of (i) approximately HK\$40,577,000 (2012: Nil) was secured by the pledged bank deposit of approximately HK\$57,692,000 held by a wholly-owned subsidiary, (ii) approximately HK\$110,897,000 (2012: Nil) were secured by the prepaid lease payment with carrying amount of approximately HK\$47,104,000 (2012: Nil), (iii) approximately HK\$21,154,000 (2012: Nil) was secured by corporate guarantee of a related party of a former shareholder; and (iv) approximately HK\$25,641,000 (2012: Nil) was secured by land use rights of a former shareholder.

As at 31 December 2013, the Group variable rate borrowings of approximately HK\$69,064,000 (2012: approximately HK\$72,450,000) was secured by a corporate guarantee of a non-controlling shareholder of a subsidiary.

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

| | 2013 | 2012 |
|--------------------------|----------------------|------------------|
| Effective interest rate: | | |
| Fixed-rate borrowings | 4.0%–8.53% | 4.0%–7.2% |
| | PRC Benchmark | PRC Benchmark |
| Variable-rate borrowings | Loan Rate | Loan Rate |

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

| | 2013 | 2012 |
|------|-----------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| HK\$ | 212,250 | 52,250 |

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

| | 2013 | 2012 |
|----------------------------|-----------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Floating rate | | |
| — expiring within one year | — | 379,353 |
| Fixed rate | | |
| — expiring within one year | 136,603 | — |
| — expiring beyond one year | 384,615 | 252,487 |
| | 521,218 | 631,840 |

16. CONVERTIBLE BONDS/EMBEDDED DERIVATIVES

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

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

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

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

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

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

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

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

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

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

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

| | Convertible Bonds I HK\$'000 | Convertible Bonds II HK\$'000 | Total HK\$'000 |
|--|---|--|---------------------------|
| Liability component | | | |
| At 1 January 2012 | 155,083 | — | 155,083 |
| At date of issue | — | 70,792 | 70,792 |
| Effective interest charged to profit or loss (<i>Note 6</i>) | 24,578 | 1,747 | 26,325 |
| | <hr/> | <hr/> | <hr/> |
| At 31 December 2012 | 179,661 | 72,539 | 252,200 |
| Redemption | (191,242) | — | (191,242) |
| Effective interest charged to profit or loss (<i>Note 6</i>) | 11,581 | 12,631 | 24,212 |
| | <hr/> | <hr/> | <hr/> |
| At 31 December 2013 | <u>—</u> | <u>85,170</u> | <u>85,170</u> |
| Option component | | | |
| At 1 January 2012 | 8,460 | — | 8,460 |
| At date of issue | — | 29,208 | 29,208 |
| Loss (gain) on fair value change of embedded derivatives | 18,048 | (1,564) | 16,484 |
| | <hr/> | <hr/> | <hr/> |
| At 31 December 2012 | 26,508 | 27,644 | 54,152 |
| Redemption | (22,450) | — | (22,450) |
| (Gain) loss on fair value change of embedded derivatives | (4,058) | 121,468 | 117,410 |
| | <hr/> | <hr/> | <hr/> |
| At 31 December 2013 | <u>—</u> | <u>149,112</u> | <u>149,112</u> |

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

The fair values of the embedded derivatives at 31 December 2012 and 2013 were determined by reference to a valuation conducted by a firm of independent valuers using Binomial Option Pricing Model. The inputs and methodology used for the calculation of the fair values of the embedded derivatives were as follows:

| Convertible Bonds I | At redemption | 31 December 2012 |
|----------------------------|----------------------|-------------------------|
| Share price | HK\$0.265 | HK\$0.345 |
| Risk-free rate | 0.214% | 0.117% |
| Time to maturity | 1.79 years | 2.29 years |
| Dividend yield | 0% | 0% |
| Volatility | 69.56% | 58.18% |

| Convertible Bonds II | 31 December 2013 | 31 December 2012 |
|-----------------------------|-------------------------|-------------------------|
| Share price | HK\$0.68 | HK\$0.345 |
| Risk-free rate | 0.19% | 0.117% |
| Time to maturity | 1 year | 2 years |
| Dividend yield | 0% | 0% |
| Volatility | 76.68% | 58.18% |

17. ACQUISITION OF SUBSIDIARIES

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

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

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

* for identification purpose only

Goodwill arising on acquisition

| | Jiangsu Subei <i>HK\$'000</i> |
|---|---|
| Consideration transferred | 152,308 |
| Non-controlling interest (45% in Jiangsu Subei) | 113,317 |
| Net assets acquired | <u>(251,815)</u> |
| | <u><u>13,810</u></u> |

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

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

BUSINESS AND FINANCIAL REVIEW

Business Review

The economic outlook for 2013 remains uncertain. Sovereign debt problems in Europe, the fiscal cliff conundrum in the United States are amongst the main factors posing continual risks and uncertainties to the recovery and stability of major economies and financial markets around the world, despite the loose monetary measures taken by major central banks globally. In respect of the Group's waste treatment and waste-to-energy business, the Group is conservatively optimistic about the future development of the green energy industry. According to the "National Plan for Establishing Facilities for Treatment Of Urban Household Waste in a Non-Hazardous Way under the Twelfth Five-Year Plan" of the PRC issued in May 2012, the daily waste processing capacity of waste-to-energy shall be substantially increased from 89,625 tonnes at the end of 2010 to approximately 307,155 tonnes by the end of 2015 at an annual compound growth rate of approximately 28%.

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

As at 31 December 2013, the Group had nine waste treatment projects that commanded a total investment of approximately RMB2,803.8 million. The waste treatment facilities including incineration and anaerobic were designed with the annual capacity to process waste of approximately 2,008,050 tonnes which can generate on-grid electricity of approximately 579 million kWh annually. The dismantling scale of the electronic dismantling facility was approximately 2 million units annually.

Business Prospects

If the Beijing Plant of the Group is put into commercial operation as soon as possible, the Group's further development will benefit from its operation. The Beijing Plant is the first waste-to-energy project in the PRC applying the technology of anaerobic digestion. On 25 July 2013, the Company received a notice named "Notice of Accelerating the Construction of Dongcun Waste Sorting Comprehensive Treatment Plant" ("Notice") dated on 23 July 2013 from Beijing Municipal Commission of City Administration and Environment in relation to the amendments of the operational terms and conditions of Beijing Plant. The Notice states that:

- (1) The waste treatment capacity will increase from 650 tonnes per day to 930 tonnes per day;
- (2) The concessionary period will be 25 years commencing from 1 January 2014 to 31 December 2038;
- (3) The minimum guaranteed volume of waste treatment will increase from 360 tonnes per day to 500 tonnes per day.

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

The Nanchang Solid Waste Incineration Power Generation Plant located in Nanchang Quanling will continue to be under construction in 2013 and expected to enter into the trial run stage in 2014.

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

The project located in Guangdong Huizhou was passed at the general meeting of the Company. The project is in the process of complete the procedures of changes on industrial and commercial registration and other relevant issues, and the preparation works such as site selection of the New Waste Treatment Plant have already commenced. According to the plan, it is expected to treat 1,600 tonnes of waste daily upon construction completion of the New Waste Treatment Plant.

The kitchen waste treatment project located in Jiangsu Yangzhou was tendered by the Company on 6 November 2013. The project company has been incorporated and is currently carrying out preparation works for the project, which is anticipated to commence construction in the first half of 2014. The projects located in Shenzhen Pinghu, Jiangsu Huaian and Guizhou Duyun and Weng'an are all in normal commercial operation.

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

The Group will further consolidate and improve its existing businesses and technologies, constantly seeking projects with growth potential and good opportunities for acquisitions and mergers, thereby making continuous contribution to the construction of beautiful China and global environmental protection. The Group is on target for getting three to four waste-to-energy projects per year in the future years. As at 31 December 2013, the Group is actively proposing and negotiating investments in three to four waste treatment projects by way of tender or acquisition. The Group will consider several sources of funding to finance the future investments, including equity financing, debt financing, bank loans and/or shareholders' loans.

Financial Review

Overview

The net loss attributable to the owners of the Company amounted to approximately HK\$124.4 million for the year under review, among which the loss on fair value changes of embedded derivatives amounted to approximately HK\$117.4 million.

Waste treatment and Waste to Energy Business

During the year under review, the Group's revenue from its waste treatment and waste-to-energy business reached approximately HK\$246.2 million, representing an increase of approximately 1,298.9%, as compared to last year.

For the year under review, the Group's gross profit is approximately 43.4%. It is mainly because the cost of sales for the year included reversal of provision for expected losses in relation to service concession arrangements in previous years of approximately HK\$83.3 million.

Administrative Expenses

The Group's administrative expenses of the continuing operations increased by approximately 5.1% to approximately HK\$71.6 million during the year under review.

Finance Costs

Finance costs, for the Group's continuing operations, increased by approximately 10.0% to approximately HK\$55.9 million, as compared to last year. This increase is mainly attributable to the increase in the interest on borrowings.

Financial Position

As at 31 December 2013, the Group had total assets amounting to approximately HK\$2,112.9 million, with approximately HK\$481.7 million of net assets attributable to equity shareholders of the Company. The net gearing ratio, which is calculated on the basis of total borrowings (net of cash and bank balances) over the Group's total shareholders' equity, increased from approximately 0.05 as at 31 December 2012 to approximately 0.74 as at 31 December 2013. The current ratio, which is calculated on the basis of current assets over current liabilities, increased from approximately 1.08 as at 31 December 2012 to approximately 1.17 as at 31 December 2013.

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

Financial Resources

The Group finances its operations primarily with internally generated cash flow and loan facilities from shareholders. As at 31 December 2013, the Group had cash and bank balances of approximately HK\$633.6 million, representing an increase of approximately HK\$370.4 million as compared to approximately HK\$263.2 million at the end of 2012. The increase was mainly due to the proceeds received from rights issue and the new borrowings raised during the year under review. Currently, most of the Group's cash is denominated in HK dollars and RMB.

Borrowings

As at 31 December 2013, the Group had outstanding borrowings of approximately HK\$991.1 million, representing an increase of approximately HK\$724.6 million as compared to approximately HK\$266.5 million at the end of 2012. The borrowings comprised secured loans of approximately HK\$936.3 million and unsecured loans of approximately HK\$54.8 million. The borrowings are denominated in HK dollars and RMB. Approximately 54.0% and 46.0% of the borrowings are at fixed rate and variable rate.

Foreign exchange exposure

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

Charges on Assets

As at 31 December 2013, the Group's prepaid lease payments of HK\$47.1 million and pledged bank deposits of HK\$57.7 million were pledged to secure banking facilities.

Capital Commitment

As at 31 December 2013, the Group had capital commitment of approximately HK\$400.9 million in respect of the construction work under service concession arrangements, which were contracted but not provided for in the condensed consolidated financial statements.

Contingent liabilities

As at 31 December 2013, the Group provided guarantees of approximately HK\$15.5 million to a bank in respect of banking facilities granted to an associate.

Employment Information

As at 31 December 2013, the Group had about 385 employees in total, stationed mainly in the PRC, Hong Kong and Europe and the total staff cost (including directors' remuneration) was approximately HK\$31.4 million for the year ended 31 December 2013. The Group's emolument policies, which are reviewed periodically, are linked to the performance of individual employee and are based on salary trends prevailing in the aforesaid regions. In addition, the Group maintains a share option scheme for the purpose of providing incentives and rewards to eligible participants based on their individual contributions to the Group.

DIVIDEND

The Board does not recommend the payment of final dividend for the year ended 31 December 2013 (the year ended 31 December 2012: Nil).

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") as its own code for dealing in securities of the Company by the Directors. The Company has made specific enquires of all its directors regarding any noncompliance with the Model Code, and all Directors confirmed that they had complied with the required standard set out in the Model Code during the year ended 31 December 2013.

CORPORATE GOVERNANCE PRACTICES

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

The Company has complied with all the code provisions set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules during the year under review.

REVIEW OF ACCOUNTS

The audit committee of the Company has reviewed the Group's consolidated financial statements for the year ended 31 December 2013, including the accounting principles and practices adopted by the Group.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement will be published on both the websites of the Company (www.neeh.com.hk) and of the Stock Exchange (www.hkexnews.hk). The annual report of the Company for the year ended 31 December 2013 will be dispatched to shareholders and published on the aforesaid websites in due course.

By order of the Board of
New Environmental Energy Holdings Limited
Yu Chang Jian
Chairman

Hong Kong, 11 March 2014

As at the date of this announcement, the Board comprises five executive directors, namely Mr. Yu Chang Jian, Mr. Cao Guo Xian, Mr. Liu Xiao Guang, Mr. Xue Huixuan and Mr. Shen Jianping; and four independent non-executive directors; namely, Mr. Pao Ping Wing, Mr. Cheng Kai Tai, Allen, Mr. Li Baochun and Ms. Chan Yee Wah, Eva.