



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

(Incorporated in the Cayman Islands with limited liability)

(於開曼群島註冊成立之有限公司)

Stock Code 股票代號 : 03989



2019
Interim Report 中期報告

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Ms. Zhang Meng (*Chairlady*)
Mr. Cao Guoxian (*Chief Executive Officer*)
Mr. Cheng Jialin
Ms. Hao Chunmei

Independent Non-executive Directors

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

COMMITTEES

Audit Committee

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

Nomination Committee

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

Remuneration Committee

Mr. Pao Ping Wing (*Chairman*)
Mr. Cheng Kai Tai, Allen
Ms. Zhang Meng

COMPANY SECRETARY

Ms. Wong Bing Ni

AUTHORIZED REPRESENTATIVES

Ms. Zhang Meng
Ms. Wong Bing Ni

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit 1613–1618
16th Floor
Bank of America Tower
12 Harcourt Road, Central
Hong Kong

AUDITORS

Ernst & Young
Certified Public Accountants

LEGAL ADVISERS

Conyers Dill and Pearman
Jun He Law Offices

PRINCIPAL BANKERS

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

SHARE REGISTRARS AND TRANSFER OFFICES

Principal Registrar in Cayman Islands

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

Branch Registrar in Hong Kong

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

CORPORATE WEBSITE

www.cehl.com.hk

STOCK CODE

03989

MANAGEMENT DISCUSSION AND ANALYSIS



BUSINESS REVIEW AND PROSPECTS

In the first half of 2019, ongoing trade frictions between China and the United States cast a shadow over the world's economy, which was already weak. Affected by trade frictions between China and the United States, developed economies including the United States, and emerging economies, experienced a continuous slowdown, leading to a sharp decline in global economic indicators including stock market and bond market, undermining investor confidence again. In the face of extremely complicated and severe domestic and foreign environment, China, as an important engine of the global economy, improved the efficiency and made in-depth and careful efforts in actively carrying out structural transformation of the economy, and made the green economy and the environmental protection industry become new momentum of its economic development, while maintaining stable economic growth.

China's economy is entering a new normal, while development in consideration of the green economic ecology becomes a new social consensus. In the overall plan for economic construction, political construction, cultural construction, social construction and ecological civilization construction, the ecological civilization construction of the green economy is also considered according to a national top-level design. Therefore, we believe that the stepping up of policy support and capital investments in environmental governance by the government will provide unprecedented opportunities for environmental protection enterprises to develop a bigger market.

Capital Environment Holdings Limited (the "Company"), as a stated-owned enterprise and a leading provider of integrated waste treatment solution and environmental infrastructure construction services in China, has the primary responsibility to follow national strategies; promote recycling and sustainable development; adhere to the core philosophy of "treating improvement in the environmental protection issue of the state as its duty"; give play to its comprehensive strength; keep up with the market trend; maintain its strategic positioning; strengthen the top-to-bottom linkage; promote the rational matching and simultaneous development of light and heavy assets; continuously consolidate and enhance its market leading position, and become an important builder and guardian of beautiful China.

In the first half of 2019, leveraging on the strategic plans of Beijing Capital Group Co., Ltd ("Beijing Capital Group"), a controlling shareholder, the Company and its subsidiaries ("the Group") properly carried out key processes of the solid waste's industrial chain and implemented the development philosophy of "high-quality development". All staff of the Group made concerted efforts and worked hard and carefully to distinguish the Group from the fierce market competition, and thus the Group achieved excellent results for its businesses.

In terms of market expansion, in the first half of 2019, the Group successfully obtained 10 waste treatment projects in China, with the total investment of approximately RMB2,870 million, the newly-designed annual solid waste treatment capacity of 2.265 million tons and the daily treatment capacity of 6.3 thousand tons. The new projects include: Xinxiang hazardous waste comprehensive disposal project in Henan Province, Wuzhong hazardous waste comprehensive disposal project in Ningxia Hui Autonomous Region, Tanghe County solid waste-to-energy project in Nanyang City of Henan Province, PPP project of Huojia County second solid waste disposal plant in Xinxiang City of Henan Province, Lushan County biomass cogeneration project in Pingdingshan City of Henan Province, PPP project of Meihuan second solid waste disposal plant in Renqiu City of Hebei Province, domestic waste incineration power generation project in Nongan County of Changchun City of Jilin Province, solid waste incineration power generation project in Duchang County of Jiujiang City of Jiangxi Province, urban and rural solid waste collection and transportation project in Anding District of Dingxi City of Gansu Province, and phase I of the project for integrated, comprehensive and systemic treatment of environmental problems including rural sewage, garbage and public toilets in Baiyangdian of Xiong'an New Area. The above-mentioned projects enable the Group to continuously maintain the growth of incineration projects under the fundamental businesses and further expand the business under strategic cultivation of the coverage of hazardous waste and the integrated project of the Group, so as to generate synergistic effect of businesses in New Zealand; continue to solidify and improve the leading position in the industry and fulfill the development strategy of "one-stop" solid waste treatment comprehensive services for the government and residents.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

In terms of business development, during the period under review, domestic environmental protection and alternative energy projects of the Group processed household waste of approximately 1.92 million tons in aggregate, dismantled approximately 1.62 million units, and generated total on-grid electricity of 145 million kWh. As at 30 June 2019, the Group secured a total of 73 projects (including 23 waste-to-energy projects, 9 waste landfill projects, 7 anaerobic digestion technology treatment projects, 19 waste removal, collection, storage and transportation projects, 8 hazardous waste treatment projects, 2 dismantling waste electronic appliances projects and 5 biomass resources electricity generation projects) in the PRC with a total investment of approximately RMB18,700 million, of which the investment amount amounted to RMB6,270 million as at 30 June 2019. The facilities are designed with an aggregate annual household waste treatment capacity of approximately 15.99 million tons and annual electrical and electronic equipment dismantling volume of approximately 3.2 million units. The said projects have gradually entered the construction and operation period. As at 30 June 2019, there were 45 domestic projects which have entered the construction and operation period, of which the household waste incineration power plant project in Quanling, Nanchang, a representative project demonstrating a high level of competence of the Group, has been approved as an environmental demonstration base by the National Development and Reform Commission; Yangzhou hazardous waste disposal project was officially put into commercial operation, which will have positive influence over the Group's results in the future. As China makes efforts to promote the classification of waste at source, there is a significant increase in the volume of organic wastes including kitchen waste and food waste collected and transported all over China, which brings about new development opportunities and increments for terminal processing enterprises. Phase II construction of projects including Hangzhou kitchen project and Yangzhou kitchen project, which are invested, constructed and operated by the Group, have started successively. The governments in the places where Fuzhou Hongmiaoling kitchen waste project and Ningbo kitchen waste project with the World Bank loans are located also intend to start the phase II project construction in advance, so as to realize the treatment of the incremental part of organic wastes in local cities, support waste classification and achieve better environmental and economic benefits.

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

Looking ahead, against the backdrop of the huge demand for green environmental protection industry during the economic and social development in China and great support of the PRC government for the industry, with the consistent full support of Beijing Capital Group, a controlling shareholder, the Company will continue to follow the "ecology +" strategy of Beijing Capital Group, and seize all good opportunities in future development to realize comprehensive and magnificent plans of the Company in the environmental protection industry.

In order to meet the financial needs of the Group's future business development, the Group will conduct adequate research on the change trends in the global financing markets and capital markets, as well as make comprehensive assessment on the strengths and weaknesses of various financing instruments, so as to utilize several sources of funding to raise low-cost capital to finance the future investments by taking account of its short-term, medium-term and long-term funding needs with an aim to increase the market capital of the Group and create value for shareholders of the Company (the "Shareholders").

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)



FINANCIAL REVIEW

Overview

During the period under review, the net profit attributable to the owners of the Company amounted to approximately RMB171.2 million, representing an increase of approximately 99% as compared to approximately RMB86 million of the corresponding period of last year. The increase in profit was mainly due to construction profit and operating profit contributed as a result of successive commencement of construction and operation of projects, respectively, as well as the recovery of the impairment loss in relation to Nanchang Project made in previous years and the receipt of relevant interests. Of which, the net profit affected by the recovery of the impairment loss in relation to Nanchang Project and the receipt of relevant interests was approximately RMB59.8 million.

Waste Treatment and Waste-to-energy Business

During the period under review, the Group's revenue from the waste treatment and waste-to-energy business reached approximately RMB2,836.8 million, representing an increase of approximately 27.0% as compared to that of the corresponding period last year.

During the period under review, the gross profit margin of the Group was approximately 27.5%.

Administrative Expenses

During the period under review, the administrative expenses of the Group increased by approximately 8.8% to approximately RMB321.9 million. The rise of administrative expenses was mainly due to the increase of number of offices and project staff in order to cater the needs of business development and project growth.

Finance Costs

The finance costs increased by approximately 75.3% to approximately RMB213.5 million, compared to that of the corresponding period last year. The increment was mainly attributable to the Company's issuance of three-year green bond amounting to US\$300 million.

Financial Position

As at 30 June 2019, the Group had total assets amounting to approximately RMB16,264.4 million and net assets attributable to the owners of the Company were approximately RMB3,515.3 million. The gearing ratio (which is calculated on the basis of total liabilities over total assets) was approximately 69%, a slight increase of 1 percentage point from 68% at the end of 2018. The current ratio (which is calculated on the basis of current assets over current liabilities) decreased from approximately 1.59 as at 31 December 2018 to approximately 1.46 as at 30 June 2019.

In order to maximise the Shareholders' return and the market capitalisation, the Group has internal policies in place so as to maintain its gearing ratio at a reasonable and acceptable level. The Group has adopted a capital preservation policy for managing the funds raised but has not been utilized.

Financial Resources

The Group finances its operations primarily with internally generated cash flow, debt financing and loan facilities from banks. As at 30 June 2019, the Group had cash and bank balances, time deposits, investments in principal guaranteed deposits and pledged bank deposits of approximately RMB1,924.748 million, representing a decrease of approximately RMB486.783 million as compared to approximately RMB2,411.531 million at the end of 2018. The decrease was mainly due to the payment in respect of the infrastructure work under service concession arrangements, investments in new projects and expenditure on daily operation during the year under review. Currently, most of the Group's cash is denominated in US\$, HK\$, RMB and NZ\$.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Borrowings

As at 30 June 2019, the Group had outstanding borrowings of approximately RMB6,403.973 million, representing an increase of approximately RMB569.238 million as compared to approximately RMB5,834.735 million at the end of 2018. The borrowings comprised secured loans of approximately RMB2,758.85 million and unsecured loans of approximately RMB3,645.123 million. The borrowings are denominated in US\$, HK\$, RMB and NZ\$. Approximately 61% and 39% of the borrowings are at fixed rate and variable rate, respectively.

Foreign Exchange Exposure

The majority of the Group's sales, purchase and operating expenses were denominated in US\$, HK\$, RMB, NZ\$. Although the Group has been and will continue to be exposed to foreign currency exchange risks, the board of directors of the Company (the "Board") does not expect future currency fluctuations to materially impact the Group's operations. 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 2019, the Group's guarantee for certain bank financing included certain proceeds from the Group's service concession arrangements, the prepaid lease payments and buildings.

Capital commitment arrangements

As at 30 June 2019, the Group had capital commitment of approximately RMB3,118.838 million and RMB288.093 million in respect of the construction work under service concession arrangements and acquisition of property, plant and equipment respectively, which were contracted but not provided for in the consolidated financial statements.

Contingent Liabilities

As at 30 June 2019, the Group provided guarantees of approximately NZ\$75.275 million to the government institutions of New Zealand in respect of the continuous operation or the fulfillment of operation standards of the landfill sites.

Employee Information

As at 30 June 2019, the Group had about 4,217 employees in total, stationed mainly in Mainland China, Hong Kong and New Zealand. The Group's emolument policies, which are reviewed periodically, are linked to the performance of individual employees and are based on the salary trends prevailing in the aforesaid regions.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: nil).

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS



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

INTRODUCTION

We have reviewed the interim financial information set out on pages 8 to 42, which comprises the condensed consolidated statement of financial position of Capital Environment Holdings Limited (the “Company”) and its subsidiaries as at 30 June 2019 and the related condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the six months then ended, and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 *Interim Financial Reporting* (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on the interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

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

Certified Public Accountants
Hong Kong

23 August 2019

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

| | Notes | 2019 RMB'000 Unaudited | 2018 RMB'000 Unaudited |
|---|-------|------------------------------|------------------------------|
| REVENUE | 5 | 2,836,775 | 2,233,769 |
| Cost of sales | | (2,058,058) | (1,690,728) |
| Gross profit | | 778,717 | 543,041 |
| Other income and gains | 5 | 97,025 | 47,221 |
| Administrative expenses | | (321,945) | (295,816) |
| Other expenses | | (19,445) | (4,353) |
| Finance costs | 7 | (213,448) | (121,749) |
| Share of profits of joint ventures | | 18,796 | 20,637 |
| Share of profits of associates | | 5,071 | 5,651 |
| PROFIT BEFORE TAX | 6 | 344,771 | 194,632 |
| Income tax | 8 | (111,946) | (50,385) |
| PROFIT FOR THE PERIOD | | 232,825 | 144,247 |
| Attributable to: | | | |
| Owners of the parent | | 171,194 | 86,036 |
| Non-controlling interests | | 61,631 | 58,211 |
| | | 232,825 | 144,247 |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | | | |
| Basic | 9 | RMB1.20 cent | RMB0.60 cent |
| Diluted | 9 | RMB1.20 cent | RMB0.60 cent |

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2019



| | 2019 <i>RMB'000</i> Unaudited | 2018 <i>RMB'000</i> Unaudited |
|---|-------------------------------------|-------------------------------------|
| PROFIT FOR THE PERIOD | 232,825 | 144,247 |
| 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 | (18,140) | — |
| Exchange differences related to foreign operations | (19,223) | (64,047) |
| Other comprehensive income that will not be reclassified to profit or loss in subsequent periods: | | |
| Financial assets at fair value through other comprehensive income: | | |
| Changes in fair value | 10,134 | (11,136) |
| OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX | (27,229) | (75,183) |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | 205,596 | 69,064 |
| Attributable to: | | |
| Owners of the parent | 152,907 | 42,237 |
| Non-controlling interests | 52,689 | 26,827 |
| | 205,596 | 69,064 |

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 JUNE 2019

| | Notes | 30 June 2019 RMB'000 Unaudited | 31 December 2018 RMB'000 Audited |
|---|-------|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 11 | 2,089,143 | 2,007,895 |
| Right-of-use assets | 3 | 262,936 | — |
| Prepaid land lease payments | | 101,829 | 78,452 |
| Goodwill | 12 | 2,049,451 | 2,050,248 |
| Other intangible assets | 13 | 2,555,737 | 2,087,014 |
| Investments in joint ventures | | 454,874 | 459,102 |
| Investments in associates | | 104,108 | 104,667 |
| Financial assets at fair value through other comprehensive income | 15 | 88,319 | 78,185 |
| Deferred tax assets | | 12,414 | 6,063 |
| Concession financial assets | 16 | 1,705,853 | 1,532,911 |
| Contract assets | 16 | 2,477,971 | 2,025,678 |
| Prepayments, other receivables and other assets | 17 | 49,774 | 113,597 |
| Pledged deposits | | 29,561 | 2,000 |
| Total non-current assets | | 11,981,970 | 10,545,812 |
| CURRENT ASSETS | | | |
| Inventories | | 56,393 | 49,265 |
| Concession financial assets | 16 | 354,477 | 302,362 |
| Contract assets | 16 | 110,981 | 107,225 |
| Assets classified as held for sale | | 10,292 | 22,144 |
| Trade receivables | 18 | 1,025,774 | 854,136 |
| Prepayments, other receivables and other assets | 17 | 749,516 | 526,731 |
| Prepaid land lease payments | | 2,519 | 1,986 |
| Amounts due from associates | 19 | 61,544 | 47,876 |
| Tax recoverable | | 15,777 | 18,965 |
| Pledged deposits | | 5,509 | 3,509 |
| Time deposits | | 2,500 | 2,500 |
| Investments in principal guaranteed deposits | | 30,000 | — |
| Cash and cash equivalents | | 1,857,178 | 2,403,522 |
| Total current assets | | 4,282,460 | 4,340,221 |
| CURRENT LIABILITIES | | | |
| Trade payables | 20 | 868,589 | 785,888 |
| Other payables and accruals | | 580,277 | 526,692 |
| Deferred income | | 2,418 | 894 |
| Derivative financial instruments | | 16,440 | 5,266 |
| Interest-bearing bank and other borrowings | 21 | 1,326,134 | 1,332,754 |
| Amount due to a related party | | 1,665 | 1,665 |
| Tax payable | | 93,467 | 70,358 |
| Lease liabilities | 3 | 51,397 | — |
| Total current liabilities | | 2,940,387 | 2,723,517 |
| NET CURRENT ASSETS | | 1,342,073 | 1,616,704 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 13,324,043 | 12,162,516 |

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

30 JUNE 2019



| | Notes | 30 June 2019 RMB'000 Unaudited | 31 December 2018 RMB'000 Audited |
|---|-------|---|---|
| NON-CURRENT LIABILITIES | | | |
| Deferred income | | 116,269 | 88,703 |
| Interest-bearing bank and other borrowings | 21 | 5,077,839 | 4,501,981 |
| Notes payable | 22 | 2,051,200 | 2,046,726 |
| Derivative financial instruments | | 14,150 | 522 |
| Deferred tax liabilities | | 562,256 | 502,891 |
| Provisions | | 232,489 | 217,775 |
| Lease liabilities | 3 | 214,715 | — |
| Total non-current liabilities | | 8,268,918 | 7,358,598 |
| Net assets | | 5,055,125 | 4,803,918 |
| EQUITY | | | |
| Equity attributable to owners of the parent | | | |
| Issued capital | 23 | 1,188,219 | 1,188,219 |
| Reserves | | 2,327,050 | 2,174,143 |
| | | 3,515,269 | 3,362,362 |
| Non-controlling interests | | 1,539,856 | 1,441,556 |
| Total equity | | 5,055,125 | 4,803,918 |

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2019

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2019



| | Attributable to owners of the parent | | | | | | | | | | |
|--|--------------------------------------|---------------|-----------------|----------------|-------------------------|---|------------------------------|--|-----------|---------------------------|--------------|
| | Issued capital | Share premium | Capital reserve | Merger reserve | Cash flow hedge reserve | Fair value reserve of financial assets at fair value through other comprehensive income | Exchange fluctuation reserve | (Accumulated losses)/ Retained profits | Total | Non-controlling interests | Total equity |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 31 December 2018 (audited) | 1,188,219 | 3,972,845 | 8,802 | (481,084) | — | (20,923) | (183,496) | (1,122,001) | 3,362,362 | 1,441,556 | 4,803,918 |
| Effect of adoption of HKFRS 16 | — | — | — | — | — | — | — | — | — | — | — |
| At 1 January 2019 (unaudited) | 1,188,219 | 3,972,845 | 8,802 | (481,084) | — | (20,923) | (183,496) | (1,122,001) | 3,362,362 | 1,441,556 | 4,803,918 |
| Profit for the period | — | — | — | — | — | — | — | 171,194 | 171,194 | 61,631 | 232,825 |
| Other comprehensive income for the period: | | | | | | | | | | | |
| Exchange differences related to foreign operations | — | — | — | — | — | — | (19,170) | — | (19,170) | (53) | (19,223) |
| Changes in fair value of financial assets at fair value through other comprehensive income, net of tax | — | — | — | — | — | 10,134 | — | — | 10,134 | — | 10,134 |
| Cash flow hedge, net of tax | — | — | — | — | (9,251) | — | — | — | (9,251) | (8,889) | (18,140) |
| Total comprehensive income for the period | — | — | — | — | (9,251) | 10,134 | (19,170) | 171,194 | 152,907 | 52,689 | 205,596 |
| Capital contribution from non-controlling shareholders of subsidiaries | — | — | — | — | — | — | — | — | — | 45,611 | 45,611 |
| At 30 June 2019 (unaudited) | 1,188,219 | 3,972,845* | 8,802* | (481,084)* | (9,251)* | (10,789)* | (202,666)* | (950,807)* | 3,515,269 | 1,539,856 | 5,055,125 |

* These reserve accounts comprise the consolidated reserves of RMB 2,327,050,000 (31 December 2018: RMB2,174,143,000) in the interim condensed consolidated statement of financial position.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

| | Note | 2019 RMB'000 Unaudited | 2018 RMB'000 Unaudited |
|--|------|------------------------------|------------------------------|
| Cash flows from operating activities | | | |
| Profit before tax | | 344,771 | 194,632 |
| Adjustments for: | | | |
| Depreciation and amortisation | 6 | 183,845 | 144,148 |
| Gain on disposal of items of property, plant and equipment | 6 | (309) | (246) |
| Reversal of impairment of prepayments, other receivables and other assets | 6 | (56,256) | (800) |
| Impairment/(reversal of impairment) of trade receivables | 6 | 3,870 | (1,733) |
| Share of profits of joint ventures | | (18,796) | (20,637) |
| Share of profits of associates | | (5,071) | (5,651) |
| Interest income | | (115,516) | (79,732) |
| Finance costs | | 213,448 | 121,749 |
| Dividend income from financial assets at fair value through other comprehensive income | | (1,875) | (94) |
| | | 548,111 | 351,636 |
| (Increase)/decrease in inventories | | (7,128) | 375 |
| Increase in concession financial assets and relevant contract assets in relation to service concession arrangements | | (786,970) | (612,116) |
| (Increase)/decrease in trade receivables | | (182,895) | 20,430 |
| Increase in prepayments, other receivables and other assets | | (100,829) | (86,702) |
| Increase in trade payables | | 82,858 | 275,016 |
| Decrease in other payables and accruals | | (27,583) | (63,744) |
| Decrease in provision | | (301) | (706) |
| Increase in deferred income | | 29,286 | 9,500 |
| | | (445,451) | (106,311) |
| Cash used in operations | | (445,451) | (106,311) |
| Income tax paid | | (25,328) | (36,318) |
| | | (470,779) | (142,629) |
| Net cash flows used in operating activities | | (470,779) | (142,629) |

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2019



| | 2019 <i>RMB'000</i> Unaudited | 2018 <i>RMB'000</i> Unaudited |
|---|-------------------------------------|-------------------------------------|
| Cash flows from investing activities | | |
| Increase in other intangible assets and relevant contract assets in relation to service concession arrangements | (265,682) | (300,368) |
| Purchases of items of property, plant and equipment | (213,704) | (157,572) |
| Additions to other intangible assets | (158) | (309) |
| Proceeds from disposal of items of property, plant and equipment | 1,858 | 385 |
| Acquisition of subsidiaries | (700) | (13,897) |
| Decrease in assets held for sale | 11,852 | 3,417 |
| Interest received | 14,017 | 2,424 |
| Capital injection to an associate | (7,350) | — |
| Dividend received from a joint venture | 22,797 | 23,921 |
| Increase in pledged deposits | (29,561) | — |
| Increase in investments in principal guaranteed deposits | (30,000) | — |
| Net cash flows used in investing activities | (496,631) | (441,999) |
| Cash flows from financing activities | | |
| Interest paid | (153,610) | (120,629) |
| Repayment of bank loans and other borrowings | (217,658) | (224,820) |
| Payment of lease liabilities | (27,214) | — |
| New bank and other borrowings | 785,388 | 1,304,072 |
| Acquisition of non-controlling interests of a subsidiary | — | (500) |
| Capital contribution from non-controlling shareholders of subsidiaries | 45,611 | 18,180 |
| Net cash flows generated from financing activities | 432,517 | 976,303 |
| Net (decrease)/increase in cash and cash equivalents | (534,893) | 391,675 |
| Effect of foreign exchange rate changes, net | (11,451) | 5,956 |
| Cash and cash equivalents at beginning of the period | 2,403,522 | 892,790 |
| Cash and cash equivalents at end of the period | 1,857,178 | 1,290,421 |

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

1. CORPORATE AND GROUP INFORMATION

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

2. BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 June 2019 has been prepared in accordance with Hong Kong Accounting Standard (“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 2018.

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 2018, except for the adoption of the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) effective as at 1 January 2019.

| | |
|--|---|
| Amendments to HKFRS 9 | <i>Prepayment Features with Negative Compensation</i> |
| HKFRS 16 | <i>Leases</i> |
| Amendments to HKAS 19 | <i>Plan Amendment, Curtailment or Settlement</i> |
| Amendments to HKAS 28 | <i>Long-term Interests in Associates and Joint Ventures</i> |
| HK(IFRIC)-Int 23 | <i>Uncertainty over Income Tax Treatments</i> |
| <i>Annual Improvements</i> <i>2015–2017 Cycle</i> | Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23 |

Other than as explained below regarding the impact of HKFRS 16 *Leases*, Amendments to HKAS 28 *Long-term Interests in Associates and Joint Ventures* and HK(IFRIC)-Int 23 *Uncertainty over Income Tax Treatments*, the new and revised standards are not relevant to the preparation of the Group’s interim condensed consolidated financial information. The nature and impact of the new and revised HKFRSs are described below:

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2019



3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

(a) Adoption of HKFRS 16

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Therefore, HKFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted HKFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under HKAS 17.

New definition of a lease

Under HKFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their standard-alone prices.

As a lessee — Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of property, machinery, vehicles and other equipment. As a lessee, the Group previously classified leases as operating leases based on the assessment. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets and short-term leases. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2019

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) Adoption of HKFRS 16 (continued)

As a lessee — Leases previously classified as operating leases (continued)

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and present it separately in the statement of financial position.

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019. The Group elected to present the right-of-use assets separately in the statement of financial position.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease
- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics.

Accordingly, the Group recognised right-of-use assets of RMB279,825,000 and lease liabilities of RMB279,825,000 as at 1 January 2019.

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 is as follows:

| | RMB'000 Unaudited |
|---|------------------------------------|
| Operating lease commitments as at 31 December 2018 | 173,204 |
| Weighted average incremental borrowing rate as at 1 January 2019 | 4.61% |
| Discounted operating lease commitments as at 1 January 2019 | 164,627 |
| Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019 | 2,172 |
| Commitments relating to leases of low-value assets | 475 |
| Add: Payments for optional extension periods not recognised as at 31 December 2018 | 117,845 |
| Lease liabilities as at 1 January 2019 | 279,825 |

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2019



3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) Adoption of HKFRS 16 (continued)

Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of HKFRS 16 from 1 January 2019:

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term.

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases, to lease properties and vehicles for additional terms of three years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. It considers all relevant factors that create an economic incentive for it to exercise the renewal.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2019

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) Adoption of HKFRS 16 (continued)

Amounts recognised in the interim condensed consolidated statement of financial position and profit or loss

The carrying amounts of the Group's right-of-use assets and lease liabilities, and the movement during the period are as follow:

| | Right-of-use assets | | | Total RMB'000 | Lease liabilities RMB'000 |
|-----------------------------------|----------------------|--------------------------------|---------------------------|------------------|------------------------------|
| | Buildings RMB'000 | Plant and machinery RMB'000 | Motor vehicles RMB'000 | | |
| As at 1 January 2019 | 270,348 | 133 | 9,344 | 279,825 | 279,825 |
| Additions | 2,501 | 889 | 3,819 | 7,209 | 7,209 |
| Depreciation charge | (21,330) | (89) | (2,432) | (23,851) | — |
| Interest expense | — | — | — | — | 6,505 |
| Payments | — | — | — | — | (27,214) |
| Foreign exchange differences, net | (269) | 9 | 13 | (247) | (213) |
| As at 30 June 2019 | 251,250 | 942 | 10,744 | 262,936 | 266,112 |

The Group recognised rental expenses from short-term leases, leases of low-value and variable lease payments of RMB2,659,000 for the six months ended 30 June 2019.

- (b) Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group assessed its business model for its long-term interests in associates and joint ventures upon adoption of the amendments on 1 January 2019 and concluded that the long-term interests in associates and joint ventures continue to be measured at amortised cost in accordance with HKFRS 9. Accordingly, the amendments did not have any impact on the Group's interim condensed consolidated financial information.
- (c) HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions, the Group conclusion that the interpretation did not have any significant impact on the Group's interim condensed consolidated financial information.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2019



4. OPERATING SEGMENT INFORMATION

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

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

| Six months ended 30 June 2019 | Waste treatment and waste-to-energy business in the PRC <i>RMB'000</i> | Waste treatment and waste-to-energy business in New Zealand <i>RMB'000</i> | Total <i>RMB'000</i> |
|---|---|---|-------------------------|
| Segment revenue: | | | |
| Revenue from external customers | 1,646,779 | 1,189,996 | 2,836,775 |
| Revenue from operations | | | <u>2,836,775</u> |
| Segment results | 148,538 | 84,287 | 232,825 |
| Other segment information: | | | |
| Share of profits of joint ventures | — | 18,796 | 18,796 |
| Share of profits of associates | 5,071 | — | 5,071 |
| (Reversals of impairment)/impairment losses recognised in the statement of profit or loss | (53,788) | 1,402 | (52,386) |
| Depreciation and amortisation | 30,541 | 153,304 | 183,845 |
| Capital expenditure (Note) | 27,035 | 193,878 | 220,913 |
| As at 30 June 2019 | | | |
| Segment assets | 9,765,934 | 6,498,496 | 16,264,430 |
| Segment liabilities | 7,023,411 | 4,185,894 | 11,209,305 |

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2019

4. OPERATING SEGMENT INFORMATION *(continued)*

| Six months ended 30 June 2018 | Waste treatment and waste-to-energy business in the PRC <i>RMB'000</i> | Waste treatment and waste-to-energy business in New Zealand <i>RMB'000</i> | Total <i>RMB'000</i> |
|---|---|---|-------------------------|
| Segment revenue: | | | |
| Revenue from external customers | 1,114,964 | 1,118,805 | 2,233,769 |
| Revenue from operations | | | <u>2,233,769</u> |
| Segment results | 55,936 | 88,311 | 144,247 |
| Other segment information: | | | |
| Share of profits of joint ventures | — | 20,637 | 20,637 |
| Share of profits of associates (Reversals of impairment)/impairment losses recognised in the statement of profit or loss | 5,651 | — | 5,651 |
| Depreciation and amortisation | (5,019) | 2,486 | (2,533) |
| Capital expenditure (Note) | 13,665 | 130,483 | 144,148 |
| As at 31 December 2018 | | | |
| Segment assets | 8,728,704 | 6,157,329 | 14,886,033 |
| Segment liabilities | 6,171,347 | 3,910,768 | 10,082,115 |

Note: Capital expenditure consists of additions to property, plant and equipment and right-of-use assets.

Information about a major customer

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2019



5. REVENUE, OTHER INCOME AND GAINS

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

| | For the six months ended 30 June | |
|---|----------------------------------|------------------------------|
| | 2019 RMB'000 Unaudited | 2018 RMB'000 Unaudited |
| Revenue from contracts with customers | | |
| Construction services under service concession arrangements | 1,056,702 | 835,022 |
| Operation services under service concession arrangements | 190,661 | 96,954 |
| Electronic appliance dismantling | 215,231 | 97,888 |
| Waste collection services | 750,084 | 726,487 |
| Waste landfill services | 257,985 | 216,295 |
| Recycling | 60,500 | 55,149 |
| Technical services | 114,767 | 116,006 |
| Others | 99,052 | 27,391 |
| Total revenue from contracts with customers | 2,744,982 | 2,171,192 |
| Effective interest income on concession financial assets | 91,793 | 62,577 |
| Total revenue | 2,836,775 | 2,233,769 |

Disaggregated revenue information for revenue from contracts with customers:

Geographical markets

The Group's revenue are mainly derived from the PRC and New Zealand markets. The revenue from the PRC market amounting to RMB1,646,779,000 (six months ended 30 June 2018: RMB1,114,964,000) was derived from construction services under service concession arrangements, operation services under service concession arrangements, effective interest income on concession financial assets, electronic appliance dismantling and others. The revenue from the New Zealand market amounting to RMB1,189,996,000 (six months ended 30 June 2018: RMB1,118,805,000) was derived from waste collection services, waste landfill services, recycling, technical services and others.

| | 2019 | 2018 |
|---|-----------|-----------|
| Timing of revenue recognition | | |
| Goods transferred at a point in time | 201,917 | 109,619 |
| Services transferred at a point in time | 1,129,496 | 1,063,656 |
| Services transferred over time | 1,413,569 | 997,917 |
| Total revenue from contracts with customers | 2,744,982 | 2,171,192 |

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2019

5. REVENUE, OTHER INCOME AND GAINS (continued)

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

Other income and gains

| | For the six months ended 30 June | |
|---|----------------------------------|------------------------------|
| | 2019 RMB'000 Unaudited | 2018 RMB'000 Unaudited |
| Bank interest income | 3,554 | 1,499 |
| Other interest income | 20,169 | 15,656 |
| Gain on disposal of investment in an associate | — | 10,103 |
| Gain on disposal of items of property, plant and equipment | 309 | 246 |
| Government grants | 14,134 | 9,894 |
| Reversal of impairment of trade receivables | — | 4,661 |
| Reversal of impairment of prepayments, other receivables and other assets | 56,256 | 800 |
| Foreign exchange gains | 180 | 633 |
| Others | 2,423 | 3,729 |
| | 97,025 | 47,221 |

6. PROFIT BEFORE TAX

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

| | For the six months ended 30 June | |
|---|----------------------------------|------------------------------|
| | 2019 RMB'000 Unaudited | 2018 RMB'000 Unaudited |
| Cost of services rendered for service concession arrangements | 1,040,710 | 841,987 |
| Cost of other services rendered | 787,536 | 724,566 |
| Cost of goods sold | 229,812 | 124,175 |
| Depreciation | | |
| — Property, plant and equipment | 118,848 | 116,341 |
| — Right-of-use assets | 23,851 | — |
| Amortisation | | |
| — Prepaid land lease payments | 1,090 | 697 |
| — Other intangible assets | 40,056 | 27,110 |
| Minimum lease payments under operating leases | — | 44,238 |
| Auditor's remuneration | 864 | 853 |
| Employee benefit expense (excluding directors' remuneration): | | |
| — Wages and salaries | 164,539 | 138,832 |
| — Pension scheme contributions | 15,188 | 11,126 |
| Impairment of financial assets, net: | | |
| — Reversal of impairment of financial assets included in prepayments, other receivables and other assets, net | (56,256) | (800) |
| — Impairment/(reversal of impairment) of trade receivables, net | 3,870 | (1,733) |
| Gain on disposal of items of property, plant and equipment | (309) | (246) |
| Foreign exchange differences, net | 5,069 | 17,737 |

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2019



7. FINANCE COSTS

| | For the six months ended 30 June | |
|---|----------------------------------|------------------------------|
| | 2019 RMB'000 Unaudited | 2018 RMB'000 Unaudited |
| Interest on bank and other borrowings | 137,695 | 111,613 |
| Interest on notes payable (note 22) | 61,750 | — |
| Other finance costs: | | |
| Increase in discounted amounts of provisions arising from the passage of time | 2,391 | 2,550 |
| Interest arising from lease liabilities | 6,505 | — |
| Others | 5,107 | 7,586 |
| | 213,448 | 121,749 |

8. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2018: 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 2018: 10%) on the interest income recognised by a subsidiary in Hong Kong from a subsidiary in New Zealand.

Under the Law of the PRC Enterprise Income Tax and Implementation Regulation of the law, the tax rate of the PRC subsidiaries was 25% for both periods. Twenty-four (six months ended 30 June 2018: fourteen) of the Group's subsidiaries operating in the PRC were eligible for certain tax benefits. Eighteen (six months ended 30 June 2018: eight) were exempted from PRC income taxes whereas another six (six months ended 30 June 2018: six) were entitled to preferential tax rates of 7.5%, 10%, 12.5% or 15% (six months ended 30 June 2018: 7.5%, 10%, 12.5% or 15%) for the period.

New Zealand profits tax has been provided at the rate of 28% (six months ended 30 June 2018: 28%) on the estimated assessable profits arising in New Zealand during the period.

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

| | For the six months ended 30 June | |
|---------------------------------|----------------------------------|------------------------------|
| | 2019 RMB'000 Unaudited | 2018 RMB'000 Unaudited |
| Current income tax: | | |
| — Hong Kong | 12,889 | 12,169 |
| — PRC | 26,841 | 8,291 |
| — New Zealand | 11,852 | 14,799 |
| Deferred | 60,364 | 15,126 |
| Total tax charge for the period | 111,946 | 50,385 |

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2019

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

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

The Group had no potentially dilutive ordinary shares in issue during the six months ended 30 June 2019 and 2018.

| | For the six months ended 30 June | |
|--|----------------------------------|------------------------------|
| | 2019 RMB'000 Unaudited | 2018 RMB'000 Unaudited |
| Earnings | | |
| Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation | 171,194 | 86,036 |
| | | |
| | For the six months ended 30 June | |
| | 2019 | 2018 |
| Shares | | |
| Weighted average number of shares in issue during the period used in the basic and diluted earnings per share calculation | 14,294,733,167 | 14,294,733,167 |

10. DIVIDENDS PROPOSED

No interim dividend was proposed by the Company for the six months ended 30 June 2019 and 2018.

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2019, the Group purchased assets with a cost of RMB213,704,000 (six months ended 30 June 2018: RMB157,572,000), other increase of RMB12,541,000 (six months ended 30 June 2018: RMB12,945,000) were arising from reassessment of closure and post-closure provision. Assets with a net book value of RMB1,549,000 were disposed by the Group during the six months ended 30 June 2019 (six months ended 30 June 2018: RMB139,000), resulting in a net gain on disposal of RMB309,000 (six months ended 30 June 2018: RMB246,000).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2019



12. GOODWILL

| | 30 June 2019 RMB'000 Unaudited | 31 December 2018 RMB'000 Audited |
|--|---|---|
| At 1 January | 2,050,248 | 2,044,408 |
| Acquisition of a subsidiary | — | 6,766 |
| Exchange realignment | (797) | (926) |
| Net carrying amount at the period/year end | 2,049,451 | 2,050,248 |

13. OTHER INTANGIBLE ASSETS

For the six months ended 30 June 2019, additions in other intangible assets arising from service concession arrangements of RMB509,469,000 mainly represent:

- 1) Increase of RMB289,945,000 due to the completion of the construction of a BOT project operated by Beijing Shoujian Environment Protection Company Limited (北京首建環保有限責任公司), which is engaged in construction waste treatment technical services.
- 2) Increase of RMB212,917,000 due to the completion of the construction of a BOT project operated by Ningbo Capital Environment Kitchen Waste Treatment Company Limited (寧波首創廚餘垃圾處理有限公司), which is engaged in kitchen waste treatment.

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

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

14. INVESTMENT IN A JOINT OPERATION

| Name | Place of incorporation | Ownership interest attributable to the Group at | | Principal activity |
|-------------------------|------------------------|---|---------------------|-------------------------------|
| | | 30 June 2019 | 31 December 2018 | |
| Waste Disposal Services | New Zealand | 50% | 50% | Waste collection and landfill |

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2019

14. INVESTMENT IN A JOINT OPERATION *(Continued)*

According to the joint operation agreement, the Group accounts for its joint operation by including its share of revenues, expenses, assets and liabilities of Waste Disposal Services in its own financial statements. The Group's share of material assets and liabilities of Waste Disposal Services is as follows:

| | 30 June 2019 RMB'000 Unaudited | 31 December 2018 RMB'000 Audited |
|--------------------------------|---|---|
| Current assets | 12,431 | 25,674 |
| Non-current assets | 103,329 | 90,373 |
| Total assets | 115,760 | 116,047 |
| Current liabilities | (4,133) | (16,628) |
| Non-current liabilities | (46,970) | (34,197) |
| Total liabilities | (51,103) | (50,825) |
| Net assets shared by the Group | 64,657 | 65,222 |

| | 30 June 2019 RMB'000 Unaudited | 30 June 2018 RMB'000 Unaudited |
|--|---|---|
| Share of the joint operation's revenue | 22,036 | 19,685 |
| Share of the joint operation's expenses | (12,414) | (12,032) |
| Share of the joint operation's profit before tax | 9,622 | 7,653 |
| Cash received | 9,119 | 11,391 |

The Group's receivables due from and payables due to the other operator of Waste Disposal Services are disclosed in notes 18 and 20 to the interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2019



15. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

| | 30 June 2019 RMB'000 Unaudited | 31 December 2018 RMB'000 Audited |
|---|---|---|
| Listed securities, at fair value | | |
| — equity securities listed in Hong Kong | 68,191 | 59,183 |
| Unlisted equity investment, at fair value | | |
| — Beijing Yiqing Biomax Green Energy Park Company Limited (北京市一清百瑪士能源有限公司, “Beijing Yiqing”) | 20,128 | 19,002 |
| | 88,319 | 78,185 |

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

| | RMB'000 Unaudited |
|-----------------------|----------------------|
| At 1 January 2019 | 78,185 |
| Changes in fair value | 10,134 |
| At 30 June 2019 | 88,319 |

16. CONCESSION FINANCIAL ASSETS AND CONTRACT ASSETS

The Group provides construction and operation services to the certain government authorities in the PRC (“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 2019.

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

The Group recognised revenue from construction services of RMB1,056,702,000 (six months ended 30 June 2018: RMB835,022,000) and revenue from operation of RMB190,661,000 (six months ended 30 June 2018: RMB96,954,000) for all the service concession arrangements of the Group (see note 5). The gross profits recognised from construction services were amounted to RMB159,070,000 (six months ended 30 June 2018: RMB77,757,000) and the gross profits recognised from operation services were amounted to RMB53,193,000 (six months ended 30 June 2018: RMB38,446,000) for all the service concession arrangements of the Group.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2019

17. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

| | 30 June 2019 RMB'000 Unaudited | 31 December 2018 RMB'000 Audited |
|--|---|---|
| Advances to suppliers | 162,472 | 223,927 |
| Deposits for acquisitions | — | 5,000 |
| Value added tax receivables | 277,123 | 215,919 |
| Loans receivable | 25,733 | 25,733 |
| Prepayments for emission units | 7,812 | 28,304 |
| Advance payment to Urban Construction Design & Research Institute (城市建設研究院, "Urban Construction Institute") (Note) | — | 40,050 |
| Tender deposits | 294,077 | 83,609 |
| Others | 32,073 | 17,786 |
| | 799,290 | 640,328 |
| Analysed for reporting purposes as: | | |
| Current assets | 749,516 | 526,731 |
| Non-current assets | 49,774 | 113,597 |
| | 799,290 | 640,328 |

Note:

The amount represents an advance payment to a third party supplier, Urban Construction Institute. There were disputes in relation to the advance payment between the Group and Urban Construction Institute. The Group and the Urban Construction Institute have lodged several appeals to Nanchang Arbitration Commission (南昌仲裁委員會) and various courts in the PRC. During the six months ended 30 June 2019, the Nanchang Arbitration Commission issued a mediation order for the above disputes, and a payment of RMB108,409,000 has been received by the Group.

18. TRADE RECEIVABLES

| | 30 June 2019 RMB'000 Unaudited | 31 December 2018 RMB'000 Audited |
|-------------------|---|---|
| Trade receivables | 1,034,142 | 859,682 |
| Impairment | (8,368) | (5,546) |
| | 1,025,774 | 854,136 |

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2019



18. TRADE RECEIVABLES (Continued)

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 2019 RMB'000 Unaudited | 31 December 2018 RMB'000 Audited |
|---------------|---|---|
| 0-90 days | 488,450 | 428,552 |
| 91-180 days | 79,355 | 84,353 |
| Over 180 days | 457,969 | 341,231 |
| | 1,025,774 | 854,136 |

Included in the Group's trade receivable balances are amounts due from the Group's joint ventures of RMB11,234,000 (31 December 2018: RMB9,084,000) and amount due from the other operator of Waste Disposal Services of RMB401,000 (31 December 2018: RMB404,000), which are repayable on credit terms similar to those offered to the major customers of the Group.

19. AMOUNTS DUE FROM ASSOCIATES

During the year ended 31 December 2015, SZ Guangye Environmental Recycling Energy Limited (深圳廣業環保再生能源有限公司, "SZ Guangye") entered into two agreements with the Group for loans amounting to RMB35,966,000. In 2016, SZ Guangye repaid RMB4,600,000 to the Group, and declared a dividend amounting to RMB7,775,000 to the Group. The dividend was not paid by SZ Guangye, and was recognised as a loan to the entity by the Group according to the agreement with the entity. In 2018, SZ Guangye declared a dividend amounting to RMB12,980,000, which was recognised as a loan to the entity as that in 2016. The loans bear interest at PRC Benchmark Lending Rate plus 20% per annum. The balance of RMB52,809,000 as at 30 June 2019 (31 December 2018: RMB39,141,000) represent the loans and interest receivable due from SZ Guangye.

During the year ended 31 December 2016, Beijing Lanjie Lide Environment Holding Limited (北京藍潔利德環境科技有限公司, "Beijing Lanjie") entered into two agreements with the Group for (i) a loan of approximately RMB6,200,000 which is unsecured and bears interest at a fixed rate of 9% per annum; (ii) a loan of approximately RMB2,400,000 which is secured and bears interest at a fixed rate of 11% per annum. The balance as at 30 June 2019 represent the loans of RMB8,600,000 and interest payable of RMB135,000 in relation to the loans mentioned above.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2019

20. 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 2019 <i>RMB'000</i> Unaudited | 31 December 2018 <i>RMB'000</i> Audited |
|---------------|--|--|
| 0-90 days | 548,093 | 538,048 |
| 91-180 days | 93,075 | 146,628 |
| Over 180 days | 227,421 | 101,212 |
| | 868,589 | 785,888 |

Included in the trade payables are amounts of RMB2,626,000 (31 December 2018: RMB1,842,000) and RMB1,413,000 (31 December 2018: RMB2,242,000) due to joint ventures and the other operator of Waste Disposal Services, respectively, with similar credit terms offered by them to their major customers.

21. INTEREST-BEARING BANK AND OTHER BORROWINGS

| | 30 June 2019 <i>RMB'000</i> Unaudited | 31 December 2018 <i>RMB'000</i> Audited |
|--|--|--|
| Secured bank and other borrowings (Notes) | 2,758,850 | 2,180,351 |
| Unsecured bank and other borrowings | 3,645,123 | 3,654,384 |
| | 6,403,973 | 5,834,735 |
| Carrying amount repayable: | | |
| Within one year | 1,326,134 | 1,332,754 |
| More than one year, but not exceeding two years | 2,954,795 | 210,156 |
| More than two years, but not exceeding five years | 1,430,074 | 4,021,558 |
| Beyond five years | 692,970 | 270,267 |
| | 6,403,973 | 5,834,735 |
| Less: amounts due within one year shown under current liabilities | (1,326,134) | (1,332,754) |
| Non-current liabilities | 5,077,839 | 4,501,981 |

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2019



21. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

Notes:

- (1) Bank loans of RMB637,509,000 as at 30 June 2019 (31 December 2018: RMB683,300,000) were guaranteed by the corporate guarantee of the Group.
- (2) A bank loan of RMB218,290,000 as at 30 June 2019 (31 December 2018: RMB96,388,000) was secured by the service concession arrangement in Huizhou Guanghui Energy Company Limited. (惠州廣惠能源有限公司).
- (3) A bank loan of RMB72,000,000 as at 30 June 2019 (31 December 2018: RMB75,000,000) was secured by the service concession arrangement in Yangzhou Capital Environmental Energy Investment Limited (揚州首創環保能源有限公司).
- (4) A bank loan of RMB92,276,000 as at 30 June 2019 (31 December 2018: nil) was secured by the service concession arrangement in Suixian Capital Environmental Energy Limited (睢縣首創環保能源有限公司).
- (5) A bank loan of RMB18,160,000 as at 30 June 2019 (31 December 2018: RMB22,080,000) was guaranteed by the corporate guarantee of a subsidiary of Beijing Capital Group Co., Ltd. ("Beijing Capital Group").
- (6) Bank loans of RMB25,000,000 as at 30 June 2019 (31 December 2018: RMB35,000,000) were secured by the prepaid land lease payments and buildings with a carrying amount of RMB50,442,000 (31 December 2018: RMB66,866,000).
- (7) A bank loan of RMB35,330,000 as at 30 June 2019 (31 December 2018: nil) was guaranteed by the corporate guarantee of the Group, and was secured by the service concession arrangement in Jiangxi Ruijin Ai Si Environmental Electric Limited (江西瑞金愛思環保電力有限公司).
- (8) A bank loan of RMB49,315,000 as at 30 June 2019 (31 December 2018: nil) was guaranteed by the corporate guarantee of the Group, and was secured by the service concession arrangement in Xihua Capital Environment Resources Limited (西華首創環保能源有限公司).
- (9) A bank loan of RMB124,520,000 as at 30 June 2019 (31 December 2018: RMB96,920,000) 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).
- (10) A bank loan of RMB15,000,000 as at 30 June 2019 (31 December 2018: RMB15,000,000) was guaranteed by a corporate guarantee of the Group, and was secured by the prepaid land lease payments and buildings with a carrying amount of RMB22,524,000 (31 December 2018: RMB23,184,000).
- (11) A bank loan of RMB120,000,000 as at 30 June 2019 (31 December 2018: nil) was guaranteed by the corporate guarantee of the Group, and was secured by the service concession arrangement in Huainan Capital Environment Recovery Engineering Co., Ltd. (淮南首創環境修復工程有限公司).
- (12) Other loan of RMB1,000,000,000 from Ping An Asset Management Co., Ltd. (平安資產管理有限責任公司) as at 30 June 2019 (31 December 2018: RMB1,000,000,000) was secured by the corporate guarantee of Beijing Capital Group.
- (13) Other loan of RMB115,186,000 from Beijing Guozi Financial Leasing Company Limited (北京國資融資租賃股份有限公司) ("Beijing Guozi") as at 30 June 2019 (31 December 2018: RMB156,663,000) was secured by the service concession arrangement in Nanchang Capital Environment Energy Co., Ltd. (南昌首創環保能源有限公司).
- (14) Other loan of RMB147,300,000 from China Merchants Bank Financial Leasing Co., Ltd. (招銀金融租賃有限公司) as at 30 June 2019 (31 December 2018: nil) was guaranteed by the corporate guarantee of the Group, and was secured by the service concession arrangement in Duyun Capital Environment Company Limited (都勻市首創環保有限公司).
- (15) Other loan of RMB88,964,000 from Beijing Guozi as at 30 June 2019 (31 December 2018: nil) was guaranteed by the corporate guarantee of the Group, and 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).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2019

21. INTEREST-BEARING BANK AND OTHER BORROWINGS *(continued)*

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

Included in other borrowings is a loan of NZ\$570,000,000 (equivalent to approximately RMB2,629,177,000) from BCG Chinastar International Investment Limited (“BCG Chinastar”) which is unsecured, interest-bearing at 5.5% per annum and has a maturity date on 31 May 2021.

As at 30 June 2019, the Group had undrawn borrowing facilities amounting to RMB1,027,511,000 (31 December 2018: RMB1,020,875,000).

As at 30 June 2019, the Group’s bank and other loans of RMB3,906,603,000 were charged at fixed interest rates while RMB2,497,370,000 were charged at floating interest rates based on the benchmark interest rates announced by the People’s Bank of China. The carrying amounts of the Group’s current borrowings approximate to their fair values.

22. NOTES PAYABLE

On 11 September 2018 and 18 October 2018, the Group issued notes in an aggregate principal amount of United States dollars (“US\$”) \$250 million and US\$50 million with total discount of US\$896,000, respectively. These two tranches of notes form a single series which is listed on the Stock Exchange. The net proceeds after deducting the transaction costs of RMB7,371,000 were RMB2,045,442,000. These notes bear interest from 11 September 2018 at 5.625% per annum payable semi-annually in arrears on 11 March and 11 September of each year, beginning 11 March 2019. Unless early redeemed, or purchased or cancelled, these notes will be redeemed at their principal amount on 10 September 2021.

After initial recognition, these notes are subsequently measured at amortised cost, using the effective interest rate method. Amortised cost is calculated by taking into account transaction costs that are an integral part of the effective interest rate. The interest expense calculated based on the effective interest rate was RMB61,750,000 which was included in finance costs in the consolidated statement of profit or loss.

The movements of notes payable during the period are as follows:

| | 30 June 2019 RMB’000 Unaudited |
|---|---|
| Liabilities at 31 December 2018 | 2,046,726 |
| Interest reclassified in previous year | 35,513 |
| Interest during the period | 61,750 |
| Interest paid during the period | (62,322) |
| Exchange realignment | 4,525 |
| | 2,086,192 |
| Less: Interest to be paid within one year | (34,992) |
| Liabilities at 30 June 2019 | 2,051,200 |

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2019



23. ISSUED CAPITAL Shares

| | 30 June 2019 <i>RMB'000</i> Unaudited | 31 December 2018 <i>RMB'000</i> Audited |
|--|--|--|
| Issued and fully paid: 14,294,733,167 ordinary shares of HK\$0.1 each | 1,188,219 | 1,188,219 |

24. CONTINGENT LIABILITIES

As at 30 June 2019, the Group provided guarantees of NZ\$50,031,000 (31 December 2018: NZ\$42,203,000) to the New Zealand government authorities in relation to continuous operation of landfills.

As at 30 June 2019, the Group provided guarantees of NZ\$25,244,000 (31 December 2018: NZ\$16,400,000) to the New Zealand government authorities in relation to the fulfillment of the waste collection contracts and the requirements of other activities.

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

25. COMMITMENTS

| | 30 June 2019 <i>RMB'000</i> Unaudited | 31 December 2018 <i>RMB'000</i> Audited |
|---|--|--|
| Contracted, but not provided for: | | |
| — construction work under service concession arrangements | 3,118,838 | 1,512,863 |
| — property, plant and equipment | 288,093 | 283,324 |
| | 3,406,931 | 1,796,187 |

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2019

26. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these unaudited interim condensed financial statements, the Group entered into the following material related party transactions during the six months ended 30 June 2019.

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

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

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

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

| Name of the related parties | Nature of the transactions | For the six months ended 30 June | |
|--|--------------------------------|----------------------------------|------------------------------|
| | | 2019 RMB'000 Unaudited | 2018 RMB'000 Unaudited |
| Beijing Capital Investment & Guarantee Co., Ltd. | Guarantees charges* | 109 | 289 |
| Beijing Capital (HK) | Rental expenses** | 791 | 733 |
| BCG Chinastar | Interest expense*** | 70,881 | 64,395 |
| Beijing Capital Group | Guarantees charges^ | 2,779 | 3,962 |
| Beijing Capital Group | Keepwell fee^^ | 1,667 | 3,334 |
| Beijing Capital Group | Keepwell fee (bond offering)^^ | 3,068 | — |
| Beijing Agricultural Investment Commercial Factoring Company Limited | Interest expense^^^ | — | 1,505 |

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

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2019



26. RELATED PARTY TRANSACTIONS *(continued)*

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

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

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

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

Beijing Capital Group provides the keepwell service for the issued notes of US\$300,000,000 and the keepwell fee is calculated based on the rate of 0.3% per annum.

^{^^^} The interest expenses were related to the loans from Beijing Agricultural Investment Commercial Factoring Company Limited with a fixed interest rate of 5.5% per annum.

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

During the six months ended 30 June 2019, the Group recognised revenue from the construction services and operating services of RMB1,056,702,000 (six months ended 30 June 2018: RMB835,022,000) and RMB190,661,000 (six months ended 30 June 2018: RMB96,954,000), respectively, under service concession arrangements with the local governments in the PRC (see note 16). All the concession financial assets of the Group are due from the local governments in the PRC.

During the six months ended 30 June 2019, the advances paid for construction of infrastructure in service concession arrangements with the government-related entity, Urban Construction Institute, were settled, and details are disclosed in note 17.

As at 30 June 2019, trade receivables from government in relation to the licenses and franchises for the treatment of certain waste electric and electronic products were RMB487,871,000 (31 December 2018: RMB384,216,000).

As at 30 June 2019, trade receivables due from the local governments in the PRC in relation to the waste management service concession arrangements were RMB171,752,000 (31 December 2018: RMB91,591,000).

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2019

26. RELATED PARTY TRANSACTIONS (continued)

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

| | Notes | For the six months ended 30 June | |
|--|-------|----------------------------------|------------------------------|
| | | 2019 RMB'000 Unaudited | 2018 RMB'000 Unaudited |
| Sales to related parties: | | | |
| Transwaste Canterbury Limited | (a) | 60,266 | 50,356 |
| Burwood Resource Recovery Park Limited | (b) | 3,208 | 5,769 |
| Pikes Point Transfer Station Limited | (a) | 5,766 | 6,071 |
| Midwest Disposals Limited | (a) | 4,528 | 2,586 |
| Waste Disposal Services | (c) | 2,998 | 2,581 |
| | | 76,766 | 67,363 |
| Purchases from related parties: | | | |
| Transwaste Canterbury Limited | (a) | 16,658 | 16,998 |
| Midwest Disposals Limited | (a) | 18,549 | 15,454 |
| Pikes Point Transfer Station Limited | (a) | 8,389 | 8,337 |
| Waste Disposal Services | (c) | 7,359 | 8,274 |
| Daniels Sharpsmart New Zealand Limited | (a) | 1,831 | 2,241 |
| Burwood Resource Recovery Park Limited | (b) | 78 | 66 |
| | | 52,864 | 51,370 |
| Interest income from related parties: | | | |
| SZ Guangye | (d) | 768 | 1,023 |
| Beijing Lanjie | (d) | — | 542 |
| | | 768 | 1,565 |

Notes:

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2019



26. RELATED PARTY TRANSACTIONS (continued)

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

| | For the six months ended 30 June | |
|--------------------------|----------------------------------|------------------------------|
| | 2019 RMB'000 Unaudited | 2018 RMB'000 Unaudited |
| Short-term benefits | 12,003 | 11,717 |
| Post-employment benefits | 20 | 16 |
| | 12,023 | 11,733 |

27. FINANCIAL INSTRUMENTS BY CATEGORY

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

Financial assets

30 June 2019

| | Financial assets at fair value through other comprehensive income | | |
|--|---|---|------------------|
| | Equity investments RMB'000 | Financial assets at amortised cost RMB'000 | Total RMB'000 |
| Financial assets at fair value through other comprehensive income | 88,319 | — | 88,319 |
| Concession financial assets | — | 2,060,330 | 2,060,330 |
| Trade receivables | — | 1,025,774 | 1,025,774 |
| Financial assets included in prepayments, other receivables and other assets | — | 319,810 | 319,810 |
| Amounts due from associates | — | 61,544 | 61,544 |
| Pledged deposits | — | 35,070 | 35,070 |
| Time deposits | — | 2,500 | 2,500 |
| Investments in principal guaranteed deposits | — | 30,000 | 30,000 |
| Cash and cash equivalents | — | 1,857,178 | 1,857,178 |
| | 88,319 | 5,392,206 | 5,480,525 |

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2019

27. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial assets (continued)

31 December 2018

| | Financial assets at fair value through other comprehensive income | Financial assets at amortised cost | Total |
|--|---|------------------------------------|------------------|
| | Equity investments | | |
| | RMB'000 | RMB'000 | RMB'000 |
| Financial assets at fair value through other comprehensive income | 78,185 | — | 78,185 |
| Concession financial assets | — | 1,835,273 | 1,835,273 |
| Trade receivables | — | 854,136 | 854,136 |
| Financial assets included in prepayments, other receivables and other assets | — | 149,392 | 149,392 |
| Amounts due from associates | — | 47,876 | 47,876 |
| Pledged deposits | — | 5,509 | 5,509 |
| Cash and cash equivalents | — | 2,403,522 | 2,403,522 |
| Time deposits | — | 2,500 | 2,500 |
| | 78,185 | 5,298,208 | 5,376,393 |

Financial liabilities

30 June 2019

| | Derivatives designated as hedging instruments | Financial liabilities at amortised cost | Total |
|---|---|---|------------------|
| | RMB'000 | RMB'000 | RMB'000 |
| Trade payables | — | 868,589 | 868,589 |
| Financial liabilities included in other payables and accruals | — | 364,830 | 364,830 |
| Interest-bearing bank and other borrowings | — | 6,403,973 | 6,403,973 |
| Derivative financial instruments | 30,590 | — | 30,590 |
| Notes payable | — | 2,051,200 | 2,051,200 |
| Amount due to a related party | — | 1,665 | 1,665 |
| Lease liabilities | — | 266,112 | 266,112 |
| | 30,590 | 9,956,369 | 9,986,959 |

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2019



27. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial liabilities

31 December 2018

| | Derivatives designated as hedging instruments <i>RMB'000</i> | Financial liabilities at amortised cost <i>RMB'000</i> | Total <i>RMB'000</i> |
|--|--|---|-------------------------|
| Trade payables | — | 785,888 | 785,888 |
| Financial liabilities included in other payables and accruals | — | 289,479 | 289,479 |
| Interest-bearing bank and other borrowings | — | 5,834,735 | 5,834,735 |
| Amount due to a related party | — | 1,665 | 1,665 |
| Notes payable | — | 2,046,726 | 2,046,726 |
| Derivative financial instruments | 5,788 | — | 5,788 |
| | <u>5,788</u> | <u>8,958,493</u> | <u>8,964,281</u> |

28. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

Fair value hierarchy

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

Assets measured at fair value :

As at 30 June 2019

| | Fair value measurement using | | | Total <i>RMB'000</i> |
|---|--|--|--|-------------------------|
| | Quoted prices in active markets (Level 1) <i>RMB'000</i> | Significant observable inputs (Level 2) <i>RMB'000</i> | Significant unobservable inputs (Level 3) <i>RMB'000</i> | |
| Financial assets at fair value through other comprehensive income | <u>68,191</u> | <u>—</u> | <u>20,128</u> | <u>88,319</u> |

As at 31 December 2018

| | Fair value measurement using | | | Total <i>RMB'000</i> |
|---|--|--|--|-------------------------|
| | Quoted prices in active markets (Level 1) <i>RMB'000</i> | Significant observable inputs (Level 2) <i>RMB'000</i> | Significant unobservable inputs (Level 3) <i>RMB'000</i> | |
| Financial assets at fair value through other comprehensive income | <u>59,183</u> | <u>—</u> | <u>19,002</u> | <u>78,185</u> |

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2019

28. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)*

Liabilities measured at fair value:

As at 30 June 2019

| | Fair value measurement using | | | Total RMB'000 |
|----------------------------------|---|---|---|------------------|
| | Quoted prices in active markets (Level 1) RMB'000 | Significant observable inputs (Level 2) RMB'000 | Significant unobservable inputs (Level 3) RMB'000 | |
| Financial liabilities | | | | |
| Derivative financial instruments | — | 30,590 | — | 30,590 |

As at 31 December 2018

| | Fair value measurement using | | | Total RMB'000 |
|----------------------------------|---|---|---|------------------|
| | Quoted prices in active markets (Level 1) RMB'000 | Significant observable inputs (Level 2) RMB'000 | Significant unobservable inputs (Level 3) RMB'000 | |
| Financial liabilities | | | | |
| Derivative financial instruments | — | 5,788 | — | 5,788 |

29. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 23 August 2019.

DISCLOSURE OF INTERESTS AND OTHER INFORMATION



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

As at 30 June 2019, none of the Directors, chief executives of the Company or their associates had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("the SFO")) that was required to be recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange.

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

As at 30 June 2019, the following shareholders (other than the Directors or chief executive of the Company whose interests and short positions in the shares or underlying shares of the Company as disclosed above) had interests or short positions in the shares and underlying shares of the Company which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

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

(L) denotes a long position

Note:

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

Save as aforesaid, the Company has not been notified by any person who had any interest or short position in the shares or underlying shares of the Company as at 30 June 2019 which are required to be notified to the Company pursuant to Part XV of the SFO or which are recorded in the register required to be kept by the Company under Section 336 of the SFO.

DISCLOSURE OF INTERESTS AND OTHER INFORMATION (CONTINUED)

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its own code for dealing in securities of the Company by the directors of the Company (the "Directors"). The Company has made specific enquires of all Directors regarding any noncompliance with the Model Code, and all Directors confirmed that they had complied with the required standard set out in the Model Code throughout the six months ended 30 June 2019.

CORPORATE GOVERNANCE PRACTICES

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

CHANGES IN INFORMATION OF DIRECTORS

There has been no further change in the Directors' information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the date of the Company's 2018 annual report.

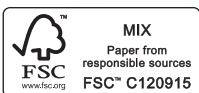
AUDIT COMMITTEE

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 auditing, internal controls and financial reporting matters including the review of the unaudited interim results for the six months ended 30 June 2019 with the management.

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 2019 in accordance with Hong Kong Standard on Review Engagement 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. The Auditors based on their review, concluded that nothing has come to their attention that causes them to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34 "Interim Financial Reporting".



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



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