

C&G ENVIRONMENTAL PROTECTION HOLDINGS LIMITED

Second Quarter Results and Dividend Announcement for the Period Ended 30 June 2012

The Board of Directors are pleased to announce the consolidated results of the Group for the three months and six months ended 30 June 2012. The figures presented below have not been audited.

PART I - INFORMATION REQUIRED FOR ANNOUNCEMENTS OF QUARTERLY (Q1, Q2 & Q3), HALF-YEAR AND FULL YEAR RESULTS

1(a)(i) An income statement (for the group) together with a comparative statement for the corresponding period of the immediately preceding financial year.

	three months ended 30 June			six months ended 30 June		
	2012 HK\$'000	(Restated) 2011 HK\$'000	% Increase / Decrease	2012 HK\$'000	(Restated) 2011 HK\$'000	% Increase / Decrease
<u>Continuing operations</u>						
Revenue	134,123	517,738	(74.09)	359,069	776,679	(53.77)
Cost of sales	(99,399)	(464,024)	(78.58)	(288,960)	(674,065)	(57.13)
Gross profit	34,724	53,714	(35.35)	70,109	102,614	(31.68)
Other income	1,182	781	51.34	1,695	3,739	(54.67)
Administrative expenses	(22,412)	(20,252)	10.67	(41,626)	(36,815)	13.07
Other operating expenses	(13,843)	-	N/A	(13,843)	-	N/A
Profit/(loss) from operations	(349)	34,243	(101.02)	16,335	69,538	(76.51)
Finance costs	(24,162)	(11,424)	111.50	(50,715)	(17,396)	191.53
Profit/(loss) before taxation	(24,511)	22,819	(207.41)	(34,380)	52,142	(165.94)
Income tax expense	(5,387)	(6,867)	(21.55)	(3,759)	(11,053)	(65.99)
Net profit/(loss) attributable to the owners of the Company	(29,898)	15,952	(287.42)	(38,139)	41,089	(192.82)
<u>Other comprehensive income</u>						
Exchange difference on translating foreign operation	(1,033)	21,469	(104.81)	7,282	30,139	(75.84)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	(30,931)	37,421	(182.66)	(30,857)	71,228	(143.32)

1 (a)(ii) Explanatory Notes:

Other income comprises:

	The Group			
	three months ended 30 June 2012 HK\$'000	2011 HK\$'000 (restated)	six months ended 30 June 2012 HK\$'000	2011 HK\$'000 (restated)
Interest income	352	57	485	131
Exchange gain	-	(27)	1	2,594
Gain on disposal of fixed assets	-	-	5	-
Government grants	444	209	791	209
Refund of VAT	104	60	104	287
Sundry income	282	482	309	518
	1,182	781	1,695	3,739

Profit from operations is arrived at after charging:

	The Group			
	three months ended 30 June 2012 HK\$'000	2011 HK\$'000	six months ended 30 June 2012 HK\$'000	2011 HK\$'000
Loss on disposal of fixed assets	4	2	4	5
Depreciation and amortisation	27,109	8,728	54,334	17,215
Interest on bank loans	24,162	11,424	50,715	17,396

1(b)(i) A balance sheet (for the issuer and group), together with a comparative statement as at the end of the immediately preceding financial year.

	Group		Company	
	30.6.2012 HK\$'000	31.12.2011 HK\$'000	30.6.2012 HK\$'000	31.12.2011 HK\$'000
ASSETS				
Non-current assets				
Fixed assets	9,399	9,808	-	-
Intangible assets	3,852,669	3,673,743	-	-
Long-term receivable	68,736	68,354	-	-
Investment in subsidiaries	-	-	575,396	575,396
	<u>3,930,804</u>	<u>3,751,905</u>	<u>575,396</u>	<u>575,396</u>
Current assets				
Inventories	2,900	2,735	-	-
Trade receivables	122,145	76,971	-	-
Gross amounts due from customers for contract work	437,518	545,428	-	-
Other deposits and other receivables	343,254	289,072	-	-
Trade deposits and prepayments	11,546	8,924	-	-
Due from subsidiaries	-	-	907,850	914,596
Pledged bank deposits	52,779	32,956	-	-
Bank and cash balances	10,032	11,012	39	210
	<u>980,174</u>	<u>967,098</u>	<u>907,889</u>	<u>914,806</u>
Total assets	<u><u>4,910,978</u></u>	<u><u>4,719,003</u></u>	<u><u>1,483,285</u></u>	<u><u>1,490,202</u></u>
EQUITY				
Equity attributable to owners of the Company				
Share capital	97,302	97,302	97,302	97,302
Reserves	1,624,659	1,659,551	1,379,185	1,389,191
Total equity	<u><u>1,721,961</u></u>	<u><u>1,756,853</u></u>	<u><u>1,476,487</u></u>	<u><u>1,486,493</u></u>
LIABILITIES				
Non-current liabilities				
Interest-bearing borrowings - secured	2,038,783	1,957,236	-	-
Long-term payables	68,736	68,354	-	-
Deferred income	18,036	18,334	-	-
Deferred tax liabilities	69,025	64,895	-	-
	<u>2,194,580</u>	<u>2,108,819</u>	<u>-</u>	<u>-</u>
Current liabilities				
Trade payables	12,217	10,572	-	-
Gross amounts due to customers for contract work	86,531	228,732	-	-
Accruals and other payables	551,748	424,374	2,997	2,629
Due to a subsidiary	-	-	1,890	1,080
Deferred income	801	797	-	-
Financial liability at fair value through profit or loss	1,911	-	1,911	-
Interest-bearing borrowings - secured	340,182	187,815	-	-
Current tax liabilities	1,047	1,041	-	-
	<u>994,437</u>	<u>853,331</u>	<u>6,798</u>	<u>3,709</u>
Total liabilities	<u><u>3,189,017</u></u>	<u><u>2,962,150</u></u>	<u><u>6,798</u></u>	<u><u>3,709</u></u>
Total equity and liabilities	<u><u>4,910,978</u></u>	<u><u>4,719,003</u></u>	<u><u>1,483,285</u></u>	<u><u>1,490,202</u></u>

1(b)(ii) Aggregate amount of group's borrowings and debt securities.

Amount repayable in one year or less, or on demand

As at 30 June 2012		As at 31 December 2011	
Secured (HK\$'000)	Unsecured (HK\$'000)	Secured (HK\$'000)	Unsecured (HK\$'000)
340,182	Nil	187,815	Nil

Amount repayable after one year

As at 30 June 2012		As at 31 December 2011	
Secured (HK\$'000)	Unsecured (HK\$'000)	Secured (HK\$'000)	Unsecured (HK\$'000)
2,038,783	Nil	1,957,236	Nil

Details of any collateral

At 30 June 2012, the banking facilities of the Group were secured by the following:

The pledge of the Group's intangible assets of approximately HK\$3,848,743,000.

1(c)(i) A cash flow statement (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year

	Group		Group	
	three months ended 30 June 2012	2011 (Restated)	six months ended 30 June 2012	2011 (Restated)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
CASH FLOW FROM OPERATING ACTIVITIES				
Profit/(loss) before tax	(24,511)	22,819	(34,380)	52,142
Adjustments for:				
Depreciation and amortisation	27,109	8,728	54,334	17,215
Interest expenses	24,162	11,424	50,715	17,396
Profit from construction services	(3,056)	(27,930)	(17,147)	(47,415)
Amortisation of deferred income	(201)	-	(401)	-
Interest income	(352)	(57)	(485)	(131)
Loss on financial liability at fair value through profit or loss	1,911	-	1,911	-
Written off of intangible asset	11,932	-	11,932	-
Net (gain)/loss on disposal of fixed asset	4	2	(1)	5
Operating profit before working capital changes	36,998	14,986	66,478	39,212
(Increase)/decrease in inventories	124	(481)	(165)	(696)
Increase in trade receivables	(25,568)	(17,217)	(45,174)	(35,940)
(Increase)/decrease in other deposits and other receivables	(16,620)	150,312	(54,564)	17,697
(Increase)/decrease in trade deposits and prepayments	1,268	(124)	(2,622)	(1,793)
(Decrease)/increase in trade payables	1,379	613	1,645	361
Increase/(decrease) in accruals and other payables	(33,241)	(10,609)	6,783	37,167
Cash (used in)/generated from operations	(35,660)	137,480	(27,619)	56,008
Tax paid	-	(639)	-	(1,450)
Interest paid	(38,019)	(25,804)	(75,817)	(50,059)
Net cash (used in)/generated from operating activities	(73,679)	111,037	(103,436)	4,499
CASH FLOWS FROM INVESTING ACTIVITIES				
Payments for construction work for BOT projects	(175,319)	(437,125)	(284,497)	(532,992)
Proceeds from disposal of fixed assets	6	-	21	-
Purchase of fixed assets	(896)	(1,217)	(937)	(1,560)
Interest received	352	57	485	131
Net cash used in investing activities	(175,857)	(438,285)	(284,928)	(534,421)
CASH FLOWS FROM FINANCING ACTIVITIES				
Dividend paid	(4,035)	(8,499)	(4,035)	(8,499)
Amount due to contractors	70,217	-	42,330	-
Advance from ultimate holding company and related company	41,696	121,427	142,598	121,427
(Increase)/decrease in pledge bank deposits	23,331	-	(19,823)	-
Repayment of interest-bearing borrowings	(19,970)	-	(62,943)	(23,708)
Drawdown of Interest-bearing borrowings	127,512	213,227	284,363	296,206
Net cash generated from financing activities	238,751	326,155	382,490	385,426
NET DECREASE IN CASH AND CASH EQUIVALENTS	(10,785)	(1,093)	(5,874)	(144,496)
EFFECT ON FOREIGN EXCHANGE RATE CHANGE	4,191	770	4,894	3,425
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL PERIOD	16,626	376,596	11,012	517,344
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL PERIOD	10,032	376,273	10,032	376,273
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS				
Bank and cash balances	10,032	376,273	10,032	376,273

1(d)(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year.

	Attributable to owners of the Company							
	Share capital	Share premium	Statutory reserve	Foreign	Contributed surplus	Proposed	Retained earnings	Total
				currency translation reserve		final dividend		
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Group								
For the three months ended								
30 June 2012								
At 1 April 2012	97,302	786,115	39,768	170,462	102,151	4,035	557,094	1,756,927
Dividend paid for FY2011	-	-	-	-	-	(4,035)	-	(4,035)
Total comprehensive income for the financial period	-	-	-	(1,033)	-	-	(29,898)	(30,931)
At 30 June 2012	<u>97,302</u>	<u>786,115</u>	<u>39,768</u>	<u>169,429</u>	<u>102,151</u>	<u>-</u>	<u>527,196</u>	<u>1,721,961</u>
For the three months ended								
30 June 2011 (restated)								
At 1 April 2011	97,302	786,115	39,768	122,408	102,151	8,499	571,610	1,727,853
Dividend paid for FY2010	-	-	-	-	-	(8,499)	-	(8,499)
Total comprehensive income for the financial period	-	-	-	21,518	-	-	15,952	37,470
At 30 June 2011	<u>97,302</u>	<u>786,115</u>	<u>39,768</u>	<u>143,926</u>	<u>102,151</u>	<u>-</u>	<u>587,562</u>	<u>1,756,824</u>
For the six months ended								
30 June 2012								
At 1 January 2012	97,302	786,115	39,768	162,147	102,151	-	569,370	1,756,853
Dividend declared for FY2011	-	-	-	-	-	4,035	(4,035)	-
Dividend paid for FY2011	-	-	-	-	-	(4,035)	-	(4,035)
Total comprehensive income for the financial period	-	-	-	7,282	-	-	(38,139)	(30,857)
At 30 June 2012	<u>97,302</u>	<u>786,115</u>	<u>39,768</u>	<u>169,429</u>	<u>102,151</u>	<u>-</u>	<u>527,196</u>	<u>1,721,961</u>
For the six months ended								
30 June 2011 (restated)								
At 1 January 2011	97,302	786,115	39,768	113,787	102,151	-	554,972	1,694,095
Dividend declared for FY2010	-	-	-	-	-	8,499	(8,499)	-
Dividend paid for FY2010	-	-	-	-	-	(8,499)	-	(8,499)
Total comprehensive income for the financial period	-	-	-	30,139	-	-	41,089	71,228
At 30 June 2011	<u>97,302</u>	<u>786,115</u>	<u>39,768</u>	<u>143,926</u>	<u>102,151</u>	<u>-</u>	<u>587,562</u>	<u>1,756,824</u>

Attributable to owners of the Company

	Share capital	Share premium	Statutory reserve	Foreign currency translation reserve	Contributed surplus	Proposed final dividend	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Company								
For the three months ended								
30 June 2012								
At 1 April 2012	97,302	786,115	-	125,755	102,151	4,035	369,199	1,484,557
Dividend paid for FY2011	-	-	-	-	-	(4,035)	-	(4,035)
Total comprehensive income for the financial period	-	-	-	-	-	-	(4,035)	(4,035)
At 30 June 2012	<u>97,302</u>	<u>786,115</u>	<u>-</u>	<u>125,755</u>	<u>102,151</u>	<u>-</u>	<u>365,164</u>	<u>1,476,487</u>
For the three months ended								
30 June 2011								
At 1 April 2011	97,302	786,115	-	125,755	102,151	8,499	380,720	1,500,542
Dividend paid for FY2010	-	-	-	-	-	(8,499)	-	(8,499)
Total comprehensive income for the financial period	-	-	-	-	-	-	(2,286)	(2,286)
At 30 June 2011	<u>97,302</u>	<u>786,115</u>	<u>-</u>	<u>125,755</u>	<u>102,151</u>	<u>-</u>	<u>378,434</u>	<u>1,489,757</u>
For the six months ended								
30 June 2012								
At 1 January 2012	97,302	786,115	-	125,755	102,151	-	375,170	1,486,493
Dividend declared for FY2011	-	-	-	-	-	4,035	(4,035)	-
Dividend paid for FY2011	-	-	-	-	-	(4,035)	-	(4,035)
Total comprehensive income for the financial period	-	-	-	-	-	-	(5,971)	(5,971)
At 30 June 2012	<u>97,302</u>	<u>786,115</u>	<u>-</u>	<u>125,755</u>	<u>102,151</u>	<u>-</u>	<u>365,164</u>	<u>1,476,487</u>
For the six months ended								
30 June 2011								
At 1 January 2011	97,302	786,115	-	125,755	102,151	-	390,081	1,501,404
Dividend declared for FY2010	-	-	-	-	-	8,499	(8,499)	-
Dividend paid for FY2010	-	-	-	-	-	(8,499)	-	(8,499)
Total comprehensive income for the financial period	-	-	-	-	-	-	(3,148)	(3,148)
At 30 June 2011	<u>97,302</u>	<u>786,115</u>	<u>-</u>	<u>125,755</u>	<u>102,151</u>	<u>-</u>	<u>378,434</u>	<u>1,489,757</u>

1(d)(ii) Details of any changes in the company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State also the number of shares that may be issued on conversion of all the outstanding convertibles as well as the number of shares held as treasury shares, if any, against the total number of issued shares excluding treasury shares of the issuer, as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.

	Par value HK\$	Number of shares	Issued and paid-up share capital HK\$
Issued and fully paid-up ordinary shares and balances as at 30 June 2011 and 30 June 2012	0.10	973,023,354	97,302,335

Note:

There were no changes in the Company's share capital since the end of the previous period reported on.

As at 30 June 2012, the number of new shares to be allotted and issued by the Company, pursuant to the exercise of warrants issued to International Finance Corporation ("IFC") was 34,008,108 ordinary shares. (2011: Nil).

1(d)(iii) To show the total number of issued shares excluding treasury shares as at the end of the current financial period and as at the end of the immediately preceding year.

	Par value HK\$	Number of shares
Issued and fully paid-up ordinary shares and balance as at 1 January and 30 June 2012	0.10	<u>973,023,354</u>

1(d)(iv) A statement showing all sales, transfers, disposal, cancellation and/or use of treasury shares as at the end of the current financial period reported on.

Not applicable.

2. Whether the figures have been audited or reviewed and in accordance with which auditing standard or practice.

The figures have not been audited nor reviewed by the Company's auditors.

3. Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of a matter).

Not applicable.

4. Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied.

The Group has applied the same accounting policies and methods of computation adopted in the preparation of financial statements for the year ended 31 December 2011. Comparative figures for the period ended 30 June 2012 were restated to adopt the accounting treatment of the government grant applied in the audited financial statements for the year ended 31 December 2011.

5. If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change.

Not applicable.

6. Earnings per ordinary share of the group for the current financial period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends.

	Three months ended 30 June 2012 HK\$ cents	Three months ended 30 June 2011 HK\$ cents (restated)	Six months ended 30 June 2012 HK\$ cents	Six months ended 30 June 2011 HK\$ cents (restated)
Earnings/(loss) per Share				
- Basic ⁽¹⁾	(3.07)	1.64	(3.92)	4.22
- Diluted ⁽²⁾	(3.07)	1.64	(3.92)	4.22

Explanatory notes:

1. Basic earnings per share (“EPS”) is calculated based on the profit attributable to shareholders for the six months ended 30 June 2012 and 2011 and the weighted average number of shares 973,023,354 (2011:973,023,354).
2. Diluted EPS is calculated based on the weighted average number of ordinary shares outstanding during the period. The unlisted warrants have not been included in the calculation of diluted earnings per share because they are anti-dilutive.

**7. Net asset value (“NAV”) (for the issuer and group) per ordinary share based on issued share capital of the issuer at the end of the:-
(a) current financial period reported on; and
(b) immediately preceding financial year.**

	The Group 30.6.2012	The Group 31.12.2011	The Company 30.6.2012	The Company 31.12.2011
Net asset value (HK\$'000)	1,721,961	1,756,853	1,476,487	1,486,493
Number of issued shares	973,023,354	973,023,354	973,023,354	973,023,354
Net asset value per share (HK\$ cents)	176.97	180.56	151.74	152.77

8. A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. It must include a discussion of the following:-
- (a) any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; and
- (b) any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on.

Review of Operating Results of the Group

Revenue

Electricity generation and construction

The revenue comprised of (i) the construction income and (ii) electricity tariff and waste services fee (i.e. revenue from operation services). The revenue mix is shown in the table below:

	Three months ended 30 June 2012	Three months ended 30 June 2011	Increase / (Decrease)
	HK\$'000	HK\$'000	%
Revenue from operation services	74,408	39,137	90.1%
Revenue from construction services	59,715	478,601	(87.5%)
Total	134,123	517,738	(74.1%)

In Q2 2011, there were four plants, namely Jinjiang, Huangshi, Huian and Anxi, under operation. During Q2 2012, there is one more plant, namely Fuqing, in operation. The daily waste treatment capacity of the five operating plants is 4,500 tonnes.

The revenue from operation services increased by 90.1% for the three months ended 30 June 2012. During the quarter, the Group has processed an approximate 336,000 tonnes of waste and sold on-grid electricity of 73,435,000 kWh, an increase of 40% and 73% respectively compared with Q2 2011. The increase of revenue from operation services was contributed by the improvement of operational efficiency and the additional source of waste supply from the cities nearby the plants. The operating plants are gradually improving its operational efficiency on waste processing and electricity generation.

In June 2012, C&G has entered into agreements with the local authorities to transfer additional supply of waste from the cities nearby to Jinjiang and Huian plant. In line with C&G's growth strategies to ramp up operational scale for the existing plants, the additional source of waste supply by the cities nearby has secured the overall waste volume of Jinjiang and Huian plant.

In addition, the increase was also contributed by the increase of on-grid electricity tariff arising from the newly issued national policy by the National Development and Reform Commission ("NDRC") to standardise the tariff at RMB0.65/kWh from 1 April 2012 for all WTE projects across different provinces of the PRC.

Construction services revenue is recognised according to the percentage of completion of the construction work for the Waste-to-Energy plants. During the period under review, less construction revenue was being recognised as the construction work for all of the operating plants were completed in prior year and Langfang and Jianyang projects were substantially completed. Therefore, in this quarter, the construction services revenue have decreased accordingly.

Gross profit

A breakdown of the gross profit by sector is as follows:

Sector	Three months ended 30 June 2012	Gross profit %	Three months ended 30 June 2011	Gross profit %
	HK\$'000		HK\$'000	
Operation services	31,668	42.6	22,136	56.6
Construction services	3,056	5.1	31,578	6.6
Total	34,724	25.9	53,714	10.4

The gross profit margin from the operations decreased from 56.6% for the three months ended 30 June 2011 to 42.6% for the three months ended 30 June 2012. This is mainly due to the recognition of the

amortisation of the intangible assets (i.e. service concession rights), of the four new plants which commenced operations in 2011 and early 2012 while the plants have yet to reach optimal levels of operational efficiency. The amortisation of the intangible assets contributed around 64% of the operational cost of sales. When compared to the gross profit margin in Q1 2012, the Group recorded an improvement of 8% from 34.6% for the three months ended 31 March 2012 to 42.6% for the three months ended 30 June 2012.

The gross profit margin for the construction services remains relatively stable.

Other income

Other income increased mainly due to the increase in interest income from pledged bank deposits and government grant.

Administrative expenses

Administrative expenses amounted to HK\$22.4million for the three months ended 30 June 2012, such as payroll expenses, legal and professional expenses and travelling expenses entertainment. The expenses increased by HK\$2.2million as more plants are under operation.

Other operating expenses

The amount was mainly comprised of a one-time write-off intangible asset resulting from the cessation of Yingkou project of HK\$11.9million and the loss on financial liability at fair value through profit or loss of HK\$1.9million due to the changes of fair value of the outstanding 34,008,108 unlisted warrants issued to International Finance Corporation on 10 April 2012.

In June 2012, the Group was informed by The Administration of Environmental Hygiene of Yingkou Economic and Technological Development Zone (the "Yingkou Administration") that it had decided not to proceed with the proposed Waste-to-Energy project in Yingkou. As a result, the Group has written off Yingkou project's intangible asset of HK\$11.9million in Q2 2012. In response to the decision, C&G has commenced negotiation with the Yingkou Administration to seek compensation for the termination of the BOT agreement.

Finance costs

The finance costs increased from HK\$11.4million to HK\$24.2million for the three months ended 30 June 2012 with drawdown of new project loans during the period and the four new project companies (namely Huangshi, Huian, Anxi and Fuqing) ceased to have capitalisation of interest once the construction work was completed.

EBITDA

EBITDA on recurring items is shown as below. The construction profit is excluded in the below analysis as the amount is recognised according to the percentage of completion of the construction work of the plants which will fluctuate from each quarter.

	Three months ended 30 June 2012	Three months ended 30 June 2011	Changes
	HK\$'000	HK\$'000	%
EBITDA on recurring basis (exclude construction profit, written off of intangible asset)	35,636	11,393	212.8

The EBITDA on recurring basis for the three months ended 30 June 2012 increased by 212.8%.

Net (loss)/profit

The net loss of HK\$29.9million for the three months ended 30 June 2012 was mainly attributable to the decrease in the construction revenue as the substantial part of construction work for the plants were completed in FY 2011 and the four new plants have yet to reach the optimal scale of operation with the non-variable costs, such as depreciation and finance cost recognised in full amount. It usually takes about two years for new plants to achieve optimal scale of operation. The loss was also due to the written off of Yingkou project's intangible asset in Q2 2012 and the VAT refund for the new plants that is yet to be entitled pending completion of all the acceptance assessments which are undergoing examination by the respective local governments.

Financial Position of the Group

ASSETS

Intangible assets

The intangible assets represented the service concession rights for the Waste-To-Energy BOT projects in PRC. The intangible assets were stated at amortised cost with the initial measurement at the fair value which was assessed by the independent valuer with reference to the replacement cost and the percentage of completion of the construction of the work for each project. The increase of HK\$178.9million in intangible assets balance is in line with the construction progress.

Trade receivables

The trade receivables increased by HK\$45.2million. The balance comprised the receivables for the waste services fee and electricity tariff. The increment was arising from the increase of subsidy receivables by HK\$28.7million from HK\$47.4million as at 31 Dec 2011 to HK\$76.1million as at 30 June 2012 and overall increase in operational revenue.

Due to the lengthy process for the change in the pricing policy of the electricity tariff by The National Development and Reform Commission ("NDRC"), the subsidy receivables are long overdue. With effect from 1 April 2012, NDRC has issued a policy to standardize the electricity tariff of all WTE projects at RMB0.65/kWh. With this policy in place, the management believes there is no recoverability issue on the outstanding receivable for the subsidy.

Gross amounts due (to)/from customers for contract work

The balance represents the amount prepaid or payable to the contractors and suppliers calculated based on the percentage of completion of construction work. The decrease in the gross amounts due from customers for contract work was mainly due to the utilisation of the prepaid amount for the construction costs incurred for Langfang and Jianyang projects. The drop in gross amounts due to customers for contract work was mainly due to settlement to contractors for Fuqing and Langfang projects.

Other deposits and other receivables and long-term receivable

The increase of other deposits and other receivables of HK\$54.2million was mainly due to the following reasons:

- (i) Increase of tender deposit of HK\$26.6million for Thailand WTE project.

During the period, the Company has submitted the bidding document to Thailand government and paid HK\$26.6million as the tender deposit for Thailand WTE project.

- (ii) Increase in tender deposit of HK\$23.9million for Guiyang project

A tender deposit of HK\$23.9million was paid upon submitting the bidding document of Guiyang project to PRC government in Q2 2012.

Pledged bank deposits

The pledged bank deposit is a guarantee to bank to secure the repayment of bills payables to certain subcontractors. As more bills were issued in Q2 2012, the pledged bank deposits increased.

LIABILITIES

Trade payable

The increase was mainly due to the increase of trade payable of Fuqing which was under operation in this year.

Interest-bearing borrowings – secured

	30.6.2012	31.12.2011	Changes
	HK\$'000	HK\$'000	
Non-current portion	2,038,783	1,957,236	4.2%
Current portion	340,182	187,815	81.1%
	<u>2,378,965</u>	<u>2,145,051</u>	10.9%

The interest-bearing borrowings increased by 10.9% as compared with prior year. The loan was borrowed as project loans to finance the construction of the Waste-to-Energy plants.

During the period under review, HK\$279.6million was drawdown and HK\$63.0million was repaid. The loans were secured by the intangible assets. As at 30 June 2012, the gearing ratio of the Group increased to 65% from 63% as at 31 December 2011.

Accruals and other payables

The accruals and other payables balances increased by HK\$127.4million due to the following reasons:

- (i) Increase in amount due to ultimate holding company of HK\$41.8million to finance the tender deposits of HK\$26.6million paid for the Thailand project and HK\$11.4million to finance the daily operating costs for the head office and Thailand office and HK\$4million for dividend payment. The balance is interest free, unsecured and repayable on demand.
- (ii) Increase in amount due to a related company of HK\$100.8million. Additional funding of HK\$100.8million was obtained from the related company to finance repayment of bank loans. Amount due to the related company is interest free, unsecured and repayable on demand.
- (iii) Increase in bills payable of HK\$12.6million from HK\$54.9million to HK\$67.5million to suppliers or sub-contractor as deposit for construction and maintenance cost. The bills payable balances represented the payable to the banks. A deposit of HK\$52.8million was placed into the designated bank account as pledged deposit to facilitate this arrangement.
- (iv) Net off with the decrease in construction cost payable to contractors of HK\$22.0million.

Financial liability at fair value through profit or loss

On 10 April 2012, the Group has issued 34,008,108 unlisted warrants at the exercise price of S\$0.185 to International Finance Corporation (“IFC”); the warrants can be exercised at any time within 18 months of the warrants issue date. Upon full exercise of the unlisted warrants, the Group is able to raise proceeds of approximately US\$5million for additional working capital to support the business development of WTE projects. The amount represented the fair value of the outstanding 34,008,108 unlisted warrants issued to IFC as at 30 June 2012 which was assessed by the independent valuer.

Statement of Cashflow

Net cash used in operating activities

Net cash used in operating activities in this quarter mainly due to the increase in trade receivables, more tender deposits paid for Bangkok and Guiyang projects and interest payment for bank loans.

Net cash used in investing activities

Net cash used in investing activities in this quarter mainly represented payment for construction cost of the BOT projects.

Net cash generated from financing activities

Net cash generated from financing activities in this quarter mainly represented the drawdown of the bank loans, increase in amount due to contractors, ultimate holding company and related company to finance the payment of construction work of BOT projects and repayment for bank loans and interest.

9. Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results.

Not applicable.

10. A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months.

Increasingly, growing cities in Asia are turning to WTE technology as a solution to the twin problems brought about by rapid urbanisation of their nations, such as, ever-expanding quantities of municipal solid waste and rising energy consumption. Local authorities are starting to see that WTE plants provide an alternative, reliable source of clean and renewable energy for their population.

As evident of this trend and in line with C&G's growth strategy to become a leading environmental player in the region, C&G secured its first outside-of-China WTE project in, Bangkok, Thailand, in July 2012, which marked the Group's expansion into a major Southeast Asian market. The WTE project in Nong Khaem is also Bangkok's first WTE plant to be built.

At the same time, the Group is making its foray into major cities in China for higher-value projects. In July 2012, C&G was selected as the first preferred bidder of the Guiyang WTE project. Guiyang, the capital of Guizhou Province, serves as the regional economic and commercial hub and a large retail and wholesale commercial centre for major domestic and international retailers. At an estimated value of RMB980 million, Guiyang is slated to be C&G's largest WTE project to date. Guiyang follows after C&G was selected in March 2012 to be the first preferred bidder of a WTE project in Dalian, the second largest city in Liaoning Province and an important international seaport.

For the next 12 months, C&G plans to further consolidate its WTE business. Construction of two new plants – Langfang in Hebei Province and Jianyang in Fujian Province, is on track for completion in 2012. Together, the plants will add 1,600 tonnes of daily waste treatment capacity to the five operating plants, bringing the total capacity to 6,100 tonnes per day. This represents an increase of over three times in capacity as compared to 2010, when only one plant operated at 1,800 tonnes per day.

In addition, C&G is exploring a range of solutions that will improve utilisation rates. This includes requesting the government to construct more collection stations and to establish a more efficient supply chain infrastructure, which would help increase the quantity and frequency of waste supply to the plants. At the same time, C&G continues to explore the options to collect waste from nearby cities.

Furthermore, C&G is looking to broaden its services into the asset-light operation and maintenance ("O&M") arena. In June 2012, the Group has incorporated an O&M company to provide operation and maintenance services to organisations that focus on WTE or other electricity generation businesses. By entering the O&M realm and offering the benefit of its extensive experience to those lacking such expertise, C&G will eventually enhance its long-term recurring income base.

Nevertheless, notwithstanding the above, as the Group is still in a rapid-expansion phase of its development, especially in light of the imminent commencement of operation of the plants in Langfang and Jianyang, and commencement of construction of new plants in Dalian, Guiyang and Bangkok, the Group's prospect in the second half of the year will likely to remain challenging.

11. Dividend

(a) Current Financial Period Reported On

Any dividend declared for the current financial period reported on?

None

(b) Corresponding Period of the Immediately Preceding Financial Year

Any dividend declared for the corresponding period of the immediately preceding financial year?

None

(c) Date payable

Not applicable.

(d) Books closure date

Not applicable

12. If no dividend has been declared/recommendeded, a statement to that effect.

Not applicable.

13. If the Group has obtained a general mandate from shareholders for IPTs, the aggregate value of such transactions as required under Rule 920(1)(a)(ii). If no IPT mandate has been obtained, a statement to that effect.

There is no general mandate obtained from shareholders on Interested Person Transactions.

14. Negative confirmation pursuant to Rule 705(5).

Confirmation by the Board

We, Lin Yan and Loo Cheng Guan being two Directors of C&G Environmental Protection Holdings Limited (the "Company"), do hereby confirm on behalf of the Directors of the Company that, to the best of our knowledge, nothing has come to the attention of the Board of Directors of the Company which may render the 2Q FY2012 financial statements to be materially false or misleading in any material aspect.

BY ORDER OF THE BOARD

Lin Yan
Director
10 August 2012

Loo Cheng Guan
Director