

C&G ENVIRONMENTAL PROTECTION HOLDINGS LIMITED

Second Quarter Results and Dividend Announcement for the Period Ended 30 June 2014

The Board of Directors are pleased to announce the consolidated results of the Group for the three months ended 30 June 2014. 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 and statement of comprehensive income, or a statement of comprehensive income, 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		
	2014 HK\$'000	2013 HK\$'000	% Increase / (Decrease)	2014 HK\$'000	2013 HK\$'000	% Increase / (Decrease)
Revenue	275,050	136,323	101.76	411,338	253,674	62.15
Cost of sales	<u>(198,463)</u>	<u>(81,278)</u>	144.18	<u>(263,091)</u>	<u>(146,937)</u>	79.05
Gross profit	76,587	55,045	39.14	148,247	106,737	38.89
Other income	10,877	8,279	31.38	17,627	13,394	31.60
Administrative expenses	(23,248)	(19,724)	17.87	(42,988)	(40,246)	6.81
Other operating income/(expense)	<u>1,078</u>	<u>(177)</u>	709.04	<u>2,499</u>	<u>-</u>	NM
Profit from operations	65,294	43,423	50.37	125,385	79,885	56.96
Finance costs	<u>(35,043)</u>	<u>(30,720)</u>	14.07	<u>(73,031)</u>	<u>(60,080)</u>	21.56
Profit before tax	30,251	12,703	138.14	52,354	19,805	164.35
Income tax (expense)/credit	<u>(9,517)</u>	<u>1,834</u>	618.92	<u>(18,665)</u>	<u>(1,467)</u>	1,172.32
Profit for the year attributable to the owners of the Company	20,734	14,537	42.63	33,689	18,338	83.71
Other comprehensive income, net of tax: Items that may be reclassified to profit or loss:						
Exchange difference on translating foreign operations	<u>(724)</u>	<u>21,111</u>	(103.43)	<u>(13,645)</u>	<u>34,541</u>	(139.50)
Total comprehensive income for the year attributable to the owners of the Company	<u>20,010</u>	<u>35,648</u>	(43.87)	<u>20,044</u>	<u>52,879</u>	(62.09)

1 (a)(ii) Explanatory Notes:

Other income comprises:

	The Group			
	Three months ended 30 June		Six months ended 30 June	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest income	134	210	214	259
Exchange gain	-	35	-	35
Gain on disposal of fixed assets	-	26	-	26
Government grants	2,313	515	2,587	1,407
Refund of value-added tax	8,411	7,373	14,793	11,452
Fair value gain on financial liabilities at fair value through profit or loss	-	105	-	105
Sundry income	19	15	33	110
	10,877	8,279	17,627	13,394

Profit before tax is arrived at after charging/(crediting):

	The Group			
	Three months ended 30 June		Six months ended 30 June	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Depreciation and amortisation	34,156	33,119	68,631	65,684
Interest on bank loans	35,024	30,712	72,992	60,067
Interest on finance lease	19	8	39	13
Reversal of impairment loss of value-added tax receivables	(1,078)	-	(2,499)	-

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

	The Group		The Company	
	30.6.2014	31.12.2013	30.6.2014	31.12.2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current assets				
Fixed assets	8,932	10,113	-	-
Intangible assets	4,097,829	4,041,219	-	-
Investment in subsidiaries	-	-	575,396	575,396
Investment in a joint venture	71	71	-	-
	<u>4,106,832</u>	<u>4,051,403</u>	<u>575,396</u>	<u>575,396</u>
Current assets				
Inventories	10,399	7,743	-	-
Trade receivables	169,403	140,901	-	-
Gross amounts due from customers for contract work	126,971	237,335	-	-
Other deposits and other receivables	432,290	483,842	-	-
Trade deposits and prepayments	16,593	21,726	-	-
Due from a subsidiary	-	-	906,203	906,203
Pledged bank deposits	44,198	44,044	-	-
Bank and cash balances	25,357	54,930	90	134
	<u>825,211</u>	<u>990,521</u>	<u>906,293</u>	<u>906,337</u>
TOTAL ASSETS	<u><u>4,932,043</u></u>	<u><u>5,041,924</u></u>	<u><u>1,481,689</u></u>	<u><u>1,481,733</u></u>
Capital and reserves				
Share capital	97,302	97,302	97,302	97,302
Reserves	1,665,512	1,645,026	1,367,475	1,372,657
Equity attributable to owners of the Company	<u>1,762,814</u>	<u>1,742,328</u>	<u>1,464,777</u>	<u>1,469,959</u>
Non-current liabilities				
Interest-bearing borrowings	1,971,219	1,984,086	-	-
Finance lease payables	1,015	1,136	-	-
Deferred income	23,530	24,257	-	-
Deferred tax liabilities	114,933	97,059	-	-
	<u>2,110,697</u>	<u>2,106,538</u>	<u>-</u>	<u>-</u>
Current liabilities				
Trade payables	34,279	42,434	-	-
Gross amounts due to customers for contract work	49,552	53,001	-	-
Accruals and other payables	324,502	345,159	1,883	2,255
Advance payment received	317,075	317,075	-	-
Due to a subsidiary	-	-	15,029	9,519
Deferred income	1,089	1,097	-	-
Finance lease payables	266	257	-	-
Interest-bearing borrowings	330,116	432,369	-	-
Current tax liabilities	1,653	1,666	-	-
	<u>1,058,532</u>	<u>1,193,058</u>	<u>16,912</u>	<u>11,774</u>
Total liabilities	<u>3,169,229</u>	<u>3,299,596</u>	<u>16,912</u>	<u>11,774</u>
TOTAL EQUITY AND LIABILITIES	<u><u>4,932,043</u></u>	<u><u>5,041,924</u></u>	<u><u>1,481,689</u></u>	<u><u>1,481,733</u></u>

1(b)(ii) In relation to the aggregate amount of the group's borrowings and debt securities, specify the following as at the end of the current financial period reported on with comparative figures as at the end of the immediately preceding financial year.

Amount repayable in one year or less, or on demand

As at 30 June 2014		As at 31 December 2013	
Secured (HK\$'000)	Unsecured (HK\$'000)	Secured (HK\$'000)	Unsecured (HK\$'000)
330,116	Nil	432,369	Nil

Amount repayable after one year

As at 30 June 2014		As at 31 December 2013	
Secured (HK\$'000)	Unsecured (HK\$'000)	Secured (HK\$'000)	Unsecured (HK\$'000)
1,971,219	Nil	1,984,086	Nil

Details of any collateral

At 30 June 2014, the banking facilities of the Group were secured by the following:

The pledge of the Group's intangible assets of approximately HK\$4,070,897,000.

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

	Group		Group	
	three months ended		six months ended 30	
	30 June		June	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
CASH FLOW FROM OPERATING ACTIVITIES				
Profit before tax	30,251	12,703	52,354	19,805
Adjustments for:				
Depreciation and amortisation	34,156	33,119	68,631	65,684
Interest expenses	35,043	30,720	73,031	60,080
Profit from construction services	(4,254)	(176)	(4,507)	(414)
Amortisation of deferred income	(272)	(265)	(546)	(527)
Interest income	(134)	(210)	(214)	(259)
Loss/(gain) on financial liability at fair value through profit or loss	-	72	-	(105)
Reversal of impairment loss of value-added tax receivables	(1,078)	-	(2,499)	
Net (gain)/loss on disposal of fixed asset	-	(26)	-	(26)
Share based payment expenses	203	133	442	133
Operating profit before working capital changes	93,915	76,070	186,692	144,371
Increase in inventories	(305)	(2,726)	(2,656)	(3,344)
(Increase)/decrease in trade receivables	(21,371)	10,511	(28,502)	20,476
Decrease/(increase) in other deposits and other receivables	8,504	(8,043)	54,051	(11,861)
Decrease/(increase) in trade deposits and prepayments	7,425	(8,311)	5,133	(8,136)
(Decrease)/increase in trade payables	(2,289)	4,174	(8,155)	6,019
Increase/(decrease) in accruals and other payables	31,128	(12,874)	(15,718)	7,096
Increase in deferred income	-	81	-	5,778
Cash generated from operations	117,007	58,882	190,845	160,399
Interest paid	(44,019)	(42,028)	(81,993)	(75,273)
Net cash generated from operating activities	72,988	16,854	108,852	85,126
CASH FLOWS FROM INVESTING ACTIVITIES				
Payment for construction work for BOT projects	(157,444)	(34,979)	(108,303)	(109,305)
Proceeds from disposal of fixed assets	-	47	7	50
Purchase of fixed assets	(403)	(488)	(676)	(1,341)
Interest received	134	210	214	259
Net cash used in investing activities	(157,713)	(35,210)	(108,758)	(110,337)
CASH FLOWS FROM FINANCING ACTIVITIES				
Increase/(decrease) in amount due to contractors	-	1,866	-	(42,402)
Advance from ultimate holding company and a related company	14,139	7,730	42,881	10,180
Increase/(decrease) in pledged bank deposits	(18,899)	764	(154)	(31,502)
Repayment of finance lease payables	(64)	1	(128)	(48)
Repayment of interest-bearing borrowings	(107,571)	(152,819)	(305,614)	(193,165)
Drawdown of Interest-bearing borrowings	138,483	3,016	200,143	240,200
Net cash generated from/(used in) financing activities	26,088	(139,442)	(62,872)	(16,737)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(58,637)	(157,798)	(62,778)	(41,948)
Effect on foreign exchange rate changes	20,789	56,223	33,205	53,204
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL PERIOD	-	122,824	54,930	9,993
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL PERIOD	(37,848)	21,249	25,357	21,249
ANALYSIS OF THE BALANCES OF CASH AND CASH				
Bank and cash balances	(37,848)	21,249	25,357	21,249

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	Contributed surplus	Statutory reserve	Share based payment reserve	Foreign currency translation reserve	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Group								
For the three months ended								
30 June 2014								
At 1 April 2014	97,302	786,115	102,151	39,768	868	210,292	506,105	1,742,601
Share-based payment	-	-	-	-	203	-	-	203
Total comprehensive income for the financial period	-	-	-	-	-	(724)	20,734	20,010
At 30 June 2014	<u>97,302</u>	<u>786,115</u>	<u>102,151</u>	<u>39,768</u>	<u>1,071</u>	<u>209,568</u>	<u>526,839</u>	<u>1,762,814</u>
For the three months ended								
30 June 2013								
At 1 April 2013	97,302	786,115	102,151	39,768	-	183,619	519,727	1,728,682
Share-based payment	-	-	-	-	133	-	-	133
Total comprehensive income for the financial period	-	-	-	-	-	21,111	14,537	35,648
At 30 June 2013	<u>97,302</u>	<u>786,115</u>	<u>102,151</u>	<u>39,768</u>	<u>133</u>	<u>204,730</u>	<u>534,264</u>	<u>1,764,463</u>
For the six months ended								
30 June 2014								
At 1 January 2014	97,302	786,115	102,151	39,768	629	223,213	493,150	1,742,328
Share based payment	-	-	-	-	442	-	-	442
Total comprehensive income for the financial period	-	-	-	-	-	(13,645)	33,689	20,044
At 30 June 2014	<u>97,302</u>	<u>786,115</u>	<u>102,151</u>	<u>39,768</u>	<u>1,071</u>	<u>209,568</u>	<u>526,839</u>	<u>1,762,814</u>
For the six months ended								
30 June 2013								
At 1 January 2013	97,302	786,115	102,151	39,768	-	170,189	515,926	1,711,451
Share-based payment	-	-	-	-	133	-	-	133
Total comprehensive income for the financial period	-	-	-	-	-	34,541	18,338	52,879
At 30 June 2013	<u>97,302</u>	<u>786,115</u>	<u>102,151</u>	<u>39,768</u>	<u>133</u>	<u>204,730</u>	<u>534,264</u>	<u>1,764,463</u>

Attributable to owners of the Company

	Share capital	Share premium	Contributed surplus	Share based payment reserve	Foreign currency translation reserve	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Company							
For the three months ended							
30 June 2014							
At 1 April 2014	97,302	786,115	102,151	868	125,755	354,958	1,467,149
Share-based payment	-	-	-	203	-	-	203
Total comprehensive income for the financial period	-	-	-	-	-	(2,575)	(2,575)
At 30 June 2014	<u>97,302</u>	<u>786,115</u>	<u>102,151</u>	<u>1,071</u>	<u>125,755</u>	<u>352,383</u>	<u>1,464,777</u>
For the three months ended							
30 June 2013							
At 1 April 2013	97,302	786,115	102,151	-	125,755	363,314	1,474,637
Share-based payment	-	-	-	133	-	-	133
Total comprehensive income for the financial period	-	-	-	-	-	(1,124)	(1,124)
At 30 June 2013	<u>97,302</u>	<u>786,115</u>	<u>102,151</u>	<u>133</u>	<u>125,755</u>	<u>362,190</u>	<u>1,473,646</u>
For the six months ended							
30 June 2014							
At 1 January 2014	97,302	786,115	102,151	629	125,755	358,007	1,469,959
Share-based payment	-	-	-	442	-	-	442
Total comprehensive income for the financial period	-	-	-	-	-	(5,624)	(5,624)
At 30 June 2014	<u>97,302</u>	<u>786,115</u>	<u>102,151</u>	<u>1,071</u>	<u>125,755</u>	<u>352,383</u>	<u>1,464,777</u>
For the six months ended							
30 June 2013							
At 1 January 2013	97,302	786,115	102,151	-	125,755	364,572	1,475,895
Share-based payment	-	-	-	133	-	-	133
Total comprehensive income for the financial period	-	-	-	-	-	(2,382)	(2,382)
At 30 June 2013	<u>97,302</u>	<u>786,115</u>	<u>102,151</u>	<u>133</u>	<u>125,755</u>	<u>362,190</u>	<u>1,473,646</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 2013 and 30 June 2014	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.

On 19 June 2014, the Company granted 193,000 share options, 115,800 shares for Performance Share Plan ("PSP") and 77,200 shares for Restricted Share Plan ("RSP").

(i) Employee Share Option Plan

As at 30 June 2014, the number of outstanding share options was 2,778,000 (30 June 2013: 2,585,000).

(ii) Performance Share Plan ("PSP")

As at 30 June 2014, the number of shares outstanding under the Company's PSP was 1,665,800 (30 June 2013: 1,550,000).

(iii) Restricted Share Plan ("RSP")

As at 30 June 2014, the number of shares outstanding under the Company's RSP was 1,111,200 (30 June 2013: 1,034,000).

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\$	<u>Number of shares</u>
Issued and fully paid-up ordinary shares and balance as at 1 January and 30 June 2014	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 2013.

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.

(a) Based on the weighted average number of ordinary shares on issue; and

(b) On a fully diluted basis (detailing any adjustments made to the earnings).

	Three months ended 30 June 2014 HK\$ cents	Three months ended 30 June 2013 HK\$ cents	Six months ended 30 June 2014 HK\$ cents	Six months ended 30 June 2013 HK\$ cents
Earnings per share				
- Basic ⁽¹⁾	2.13	1.49	3.46	1.88
- Diluted ⁽²⁾	N/A	N/A	N/A	N/A

Explanatory notes:

1. Basic earnings per share ("EPS") is calculated based on the profit attributable to shareholders for the period ended 30 June 2014 and 2013 and the weighted average number of shares 973,023,354 (2013:973,023,354).

2. No diluted earnings per share is presented as the Company did not have any diluted potential ordinary shares during the period ended 30 June 2014 and 2013.

7. Net asset value (for the issuer and group) per ordinary share based on the total number of issued shares excluding treasury shares of the issuer at the end of the:—

(a) current financial period reported on; and

(b) immediately preceding financial year.

	The Group 30.6.2014	The Group 31.12.2013	The Company 30.6.2014	The Company 31.12.2013
Net asset value (HK\$'000)	1,762,814	1,742,328	1,464,777	1,469,959
Number of issued shares	973,023,354	973,023,354	973,023,354	973,023,354
Net asset value per share (HK\$ cents)	181.17	179.06	150.54	151.07

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

	Three months ended 30 June 2014	Three months ended 30 June 2013	Increase / (decrease)
	HK\$'000	HK\$'000	%
Revenue from operation services	130,750	105,776	23.6
Revenue from construction services	144,300	30,547	372.4
Total	275,050	136,323	101.8

In Q2 2013, there were six plants in operation with a total capacity of 5,100 tonnes, namely Jinjiang, Huangshi, Huian, Anxi, Fuqing and Jianyang. In Q2 2014, with the expansion of phase 2 for the Anxi plant, these six plants are currently operating with a total capacity of 5,400 tonnes.

Revenue from operation services, which comprises power generation and waste handling fees, increased by 23.6% to HK\$130.8 million for Q2 2014. During the review quarter, the Group processed approximately 531,000 tonnes of waste and generated 123,625,000 kWh of sold on-grid electricity, an increase of 13.6% and 20.9% respectively compared with Q2 2013. The average utilisation rate for waste handling increased from 100.7% in Q2 2013 to 108.0% in Q2 2014, and the average utilisation rate for electricity generation increased from 64.8% in Q2 2013 to 78.0% in Q2 2014. The increase in revenue from operation services was mainly attributable to an upward adjustment of waste handling fee for the Jinjiang and Huian plants, and contributions from the improved operational efficiency in both waste processing and electricity generation at the plants.

Construction services revenue is recognised according to the percentage of completion for construction of Waste-to-Energy ("WTE") plants. During the period under review, the revenue from construction services were mainly generated from the Thailand and Huian Phase 2 projects. The higher construction revenue for the Thailand and Huian Phase 2 projects recognised in Q2 2014 was in line with the progress of the construction work.

Gross profit

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

	Three months ended 30 June 2014	Three months ended 30 June 2013	Increase / (decrease)
	HK\$'000	HK\$'000	%
Gross profit			
Operation services	72,333	54,869	31.8
Construction services	4,254	176	2,317.0
Total	76,587	55,045	39.1
Gross profit margin			
Operation services	55.3%	51.9%	
Construction services	2.9%	0.6%	
Total	27.8%	40.4%	

Gross profit margin from operation services increased from 51.9% for Q2 2013 to 55.3% for Q2 2014 mainly due to improved operational efficiency at the operating plants during the period.

Other income

Other income increased mainly due to the increase in government grant of HK\$2.0 million for land use rights of Huian project and refund of value added tax for Huangshi and Anxi projects recognised as other income in the period, while the value added tax refund on the sales of electricity of Huangshi and Anxi were offset with the value added tax on acquisition of equipment, which was recognised as a reduction of asset cost in Q2 2013.

Administrative expenses

Administrative expenses which include payroll expenses, legal and professional expenses, travelling and business development-related expenses amounted to HK\$23.2 million for Q2 2014. The balance increased by HK\$3.5 million mainly due to higher legal and professional fee arising from the proposed sales of the Group's WTE business and assets in the PRC to Grandblue Environment Company Limited ("the Purchaser") and recognition of the under-provision of China building taxes from prior years.

Other operating income/(expense)

Other operating income/(expense) amounted to HK\$1.1 million due to reversal of impairment loss of value added tax receivables upon the receipt of the value added tax invoices from the contractor. There was no such item in Q2 2013.

Finance costs

Finance costs increased from HK\$30.7 million to HK\$35.0 million for the three months ended 30 June 2014. This was mainly due to increase in the bank loan interest paid for the new bank loan for Jinjiang.

Income tax (expense)/credit

Income tax expense comprises deferred tax expense. The increase was mainly due to an increase in deferred tax expense arising from temporary differences between the international and PRC GAAP.

	Three months ended 30 June 2014 HK\$'000	Three months ended 30 June 2013 HK\$'000	Changes
<u>Income tax expense</u>	-	-	
<u>Deferred tax expense</u>			
Temporary differences on assets recognised under IFRIC 12	7,139	7,813	(8.6%)
Tax loss	1,800	3,041	(40.8%)
Temporary differences between the international and PRC GAAP	(18,456)	(9,020)	104.6%
Total	<u>(9,517)</u>	<u>1,834</u>	619.0%

EBITDA

EBITDA on recurring items is shown in the table below. 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. This amount fluctuates every quarter. The EBITDA on a recurring basis for Q2 2014 increased by 24.7%.

	Three months ended 30 HK\$'000	Three months ended 30 June 2013 HK\$'000	Increase / (decrease) %
EBITDA on recurring basis (exclude construction profit)	95,197	76,366	24.7

Net profit

The net profit of HK\$20.7 million for the quarter was mainly because of an increase in construction profit from the Thailand and Huian Phase 2 projects, and higher revenue from operation services. The increase in revenue from operation services was contributed by an upward adjustment of waste handling fee of Jinjiang and Huian plants and improvement of operational efficiency in both waste processing and electricity generation of the plants to achieve better utilisation and higher EBITDA.

Financial Position of the Group

ASSETS

Intangible assets

Intangible assets represent the service concession rights for WTE BOT projects in PRC. The intangible assets were stated at amortised cost with the initial measurement at the fair value, which was assessed by an independent valuer with reference to the replacement cost and the percentage of completion of the construction of the work for each project. The decrease of HK\$56.6 million in intangible assets was due to the movement below:

	HK\$'000
Net book value as at 1 January 2014	4,041,219
Add: Addition during the period	144,300
Less: Amortisation for the period	(66,815)
Exchange loss	(20,875)
Net book value as at 30 June 2014	<u>4,097,829</u>

Trade receivables

The trade receivable balance of HK\$169.4 million comprised receivables from waste services of HK\$40.1 million and electricity tariff of HK\$129.3 million. Trade receivables increased by HK\$28.5 million mainly due to the overall increase in operational revenue.

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

Gross amounts due (to)/from customers for contract work represents the amount prepaid or payable to the contractors and suppliers, calculated based on the percentage of completion of construction work. The decrease in gross amounts due from customers for contract work was mainly due to the utilisation of prepaid amount for the construction cost for the Huian phase 2 and Thailand projects. The decrease in gross amounts due to customers for contract work was mainly due to settlement to contractors for the Langfang project.

Other deposits and other receivables

	30.6.2014 HK\$'000	31.12.2013 HK\$'000	Changes
Other receivables	6,045	54,666	(88.9%)
Deposits	44,440	44,774	(0.7%)
Due from a joint venture	5	5	-
Value-added tax receivables	39,575	42,334	(6.5%)
Amount due from a related company	342,225	342,063	(0.0%)
	<u>432,290</u>	<u>483,842</u>	(10.7%)

Other deposits and other receivables mainly represents tender deposit paid for the BOT contracts, value-added tax receivables, prepaid expenses paid to contractors and amount due from a related

company. The balance of other deposits and other receivables decreased by HK\$51.6 million was mainly because utilisation of the prepaid expenses paid to the contractor by HK\$51.3 million.

Trade deposits and prepayments

The decrease in trade deposits and prepayments of HK\$5.1 million was mainly due to the decrease in spare parts used for operation and maintenance services of HK\$4.2 million.

Pledged bank deposits

The pledged bank deposits of HK\$44.2 million represented deposit of HK\$25.3 million placed in the bank to facilitate the arrangement of performance guarantee to the Thailand government for the Bangkok WTE project and deposit of HK\$18.9 million to secure the repayment of bills payable to the subcontractor as at the period end. There was no significant change compared to last year end.

Bank and cash balances

Bank and cash balances decreased by HK\$29.6 million as at 30 June 2014. For details of the cash movement, please refer to the Statement of Cash Flows and the explanation notes in page 14.

LIABILITIES

Trade payables

Trade payables decreased by HK\$8.2 million was mainly because of settlement of trade payable of Jinjiang and decrease in spare parts used for operation and maintenance services.

Accruals and other payables

	30.6.2014	31.12.2013	Changes
	HK\$'000	HK\$'000	
Bills payable	37,763	38,049	(0.8%)
Amounts due to contractors	99,275	154,097	(35.6%)
Due to the ultimate holding company	142,131	99,168	43.3%
Due to a related company	378	460	(17.8%)
Others	44,955	53,385	(15.8%)
	<u>324,502</u>	<u>345,159</u>	(6.0%)

Others mainly comprised of accrued salaries, other payables, bank interest payable, other tax payables, retirement benefit payable and value-added tax payable.

Accruals and other payables decreased by HK\$20.7 million mainly due to the following reasons:

- (1) Settlement of construction payables of HK\$59.2 million;
- (2) Decrease in accrued salaries of HK\$4.6 million; and
- (3) Increase in amount due to the ultimate holding company of HK\$43.0 million.

Other payables mainly comprised of accruals and other payables, retirement benefit payable and value-added tax payable. There were no significant changes compared to last year.

Advance payment received

The amount represented the brought forward balance of the advance payment of the cash consideration of RMB250 million (equivalent to HK\$317.5 million) paid by Grandblue Environment Company Limited ("the Purchaser") for the Proposed Sales according to the Framework Agreement entered into on 23 December 2013.

Deferred income

	30.6.2014	31.12.2013	Changes
	HK\$'000	HK\$'000	
Non-current portion	23,530	24,257	(3.0%)
Current portion	1,089	1,097	(0.7%)
	<u>24,619</u>	<u>25,354</u>	(2.9%)

Deferred income represented the unrecognised part of government subsidies received by the project companies. These balances will be recognised over the remaining concession periods of the related projects upon commencement of operation. The balance decreased by 2.9% was mainly due to amortisation of deferred income for the period.

Finance lease payables

	30.6.2014 HK\$'000	31.12.2013 HK\$'000	Changes
Non-current portion	266	257	3.5%
Current portion	1,015	1,136	(10.7%)
	<u>1,281</u>	<u>1,393</u>	(8.0%)

The finance lease payables represented the payable for the purchase of vehicles under hire purchase agreements. The balance decreased by 8.0% was due to the repayment of the finance lease payables for the period.

Interest-bearing borrowings

	30.6.2014 HK\$'000	31.12.2013 HK\$'000	Changes
Non-current portion	1,971,219	1,984,086	(0.6%)
Current portion	330,116	432,369	(23.6%)
	<u>2,301,335</u>	<u>2,416,455</u>	(4.8%)

The interest-bearing borrowings decreased by 4.8% as compared with prior year. The loan was borrowed as project loans to finance the construction of WTE plants.

In Q2 2014, HK\$200.1 million was drawn down and HK\$305.6 million was repaid. The loans were secured by the intangible assets. As at 30 June 2014, the Group's gearing ratio decreased slightly to 64.3% from 65.4% as at 31 December 2013.

Statement of Cash Flows

Net cash generated from operating activities

The Group recorded a net cash inflow in operating activities for the period mainly because of decrease of prepaid expenses paid to contractors, decrease in prepayments paid for operation and maintenance services and increase in bills payable.

Net cash used in investing activities

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

Net cash generated from financing activities

Net cash generated from financing activities in this quarter mainly represents net cash inflow from the drawdown of interest-bearing borrowings and advance from the ultimate holding company offset with the repayment of interest-bearing borrowings and increase in pledged bank deposits.

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.

Further to the announcements made on 23 October 2013, 24 November 2013, 24 December 2013, 29 January 2014, 8 April 2014, 7 May 2014, 30 June 2014, 7 July 2014 (the "Previous

Announcements”) and its circular to shareholders dated 14 April 2014 (the “Circular”) in relation to the proposed sale of the Group’s WTE business and assets in the PRC to the Purchaser, the Group is in the process of obtaining approvals from the Ministry of Commerce (“MOC”) to be a strategic foreign investor of the Purchaser (the “Strategic Investor Application”). As the approval is yet to be obtained, the Purchaser has made a request for the China Securities Regulatory Commission of the PRC (the “CSRC”) to suspend its review of the application (the “CSRC Application”) for the issue and allotment of the Purchaser’s shares to C&G as part of the consideration for the acquisition of C&G (China). The Purchaser will make further requests to CSRC to resume its review of the CSRC Application once the approval of the Strategic Investor Application has been obtained. Shareholders should note that the proposed acquisition of C&G (China) by the Purchaser is still subject to the approvals of the MOC and the CSRC.

Operationally, construction for phase two of Group’s Huian plant has commenced and is expected to be completed by the end of 2014, adding an additional daily waste treatment capacity of 400 tonnes. The new facilities are expected to improve the overall operational efficiency for Huian plant.

On the regional front, the construction of the Group’s maiden WTE project in Bangkok Thailand has also commenced and is on track for completion by the first half of 2015. When operational, the Bangkok plant will have a daily waste treatment capacity of 500 tonnes.

Besides deploying our expertise to the WTE industry in Southeast Asia, we are also looking to diversify our business into other areas of environmental protection. On 14 May 2014, the Group has incorporated a wholly-owned subsidiary, C&G Green Energy (Shenzhen) Company Limited (“C&G SZ”) in Shenzhen, the PRC. The principal activity of the subsidiary is to provide technical advisory and services and conduct research and development on waste water, clean water, sludge and air pollution treatments. On 23 July 2014, C&G SZ signed its first sales contract of the Deep Dewatering Double-membrane Filter Press for Sludge. Signing of C&G’s first equipment sales contract marks another strategic milestone in our business diversification into a more asset-light business to enhance our income base.

11. If a decision regarding dividend has been made:—

(a) Whether an interim (final) ordinary dividend has been declared (recommended).

None

(b) (i) Amount per share and (ii) previous corresponding period.

None

(c) Whether the dividend is before tax, net of tax or tax exempt. If before tax or net of tax, state the tax rate and the country where the dividend is derived. (If the dividend is not taxable in the hands of shareholders, this must be stated).

Not applicable.

(d) The date the dividend is payable.

Not applicable.

(e) The date on which Registrable Transfers received by the company (up to 5.00 pm) will be registered before entitlements to the dividend are determined.

Not applicable.

12. If no dividend has been declared (recommended), a statement to that effect.

No dividend has been declared.

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 FY2014 financial statements to be materially false or misleading in any material aspect.

BY ORDER OF THE BOARD

Lin Yan
Director
11 August 2014

Loo Cheng Guan
Director