



Beijing Development (Hong Kong) Limited

(Stock Code 154)

2014

INTERIM REPORT





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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive directors:

Mr. E Meng (*Chairman*)
Mr. Zhang Honghai
Mr. Ke Jian (*Vice Chairman and Chief Executive Officer*)
Ms. Sha Ning (*Vice President*)
Ms. Qin Xuemin (*Vice President*)
Mr. Ng Kong Fat, Brian

Independent non-executive directors:

Dr. Jin Lizuo
Dr. Huan Guocang
Dr. Wang Jianping
Prof. Nie Yongfeng
Mr. Cheung Ming

AUDIT COMMITTEE

Dr. Huan Guocang (*Chairman*)
Dr. Jin Lizuo
Dr. Wang Jianping

REMUNERATION COMMITTEE

Dr. Jin Lizuo (*Chairman*)
Mr. E Meng
Dr. Huan Guocang
Dr. Wang Jianping

NOMINATION COMMITTEE

Mr. E Meng (*Chairman*)
Dr. Jin Lizuo
Dr. Huan Guocang
Dr. Wang Jianping

COMPANY SECRETARY

Mr. Wong Kwok Wai, Robin

AUTHORISED REPRESENTATIVES

Mr. Ng Kong Fat, Brian
Mr. Wong Kwok Wai, Robin

REGISTERED OFFICE

66th Floor, Central Plaza
18 Harbour Road
Wanchai
Hong Kong

WEBSITE

<http://www.bdhk.com.hk>

STOCK CODE

154

SHARE REGISTRARS

Tricor Tengis Limited
22/F, Hopewell Centre
183 Queen's Road East
Hong Kong

AUDITORS

Ernst & Young

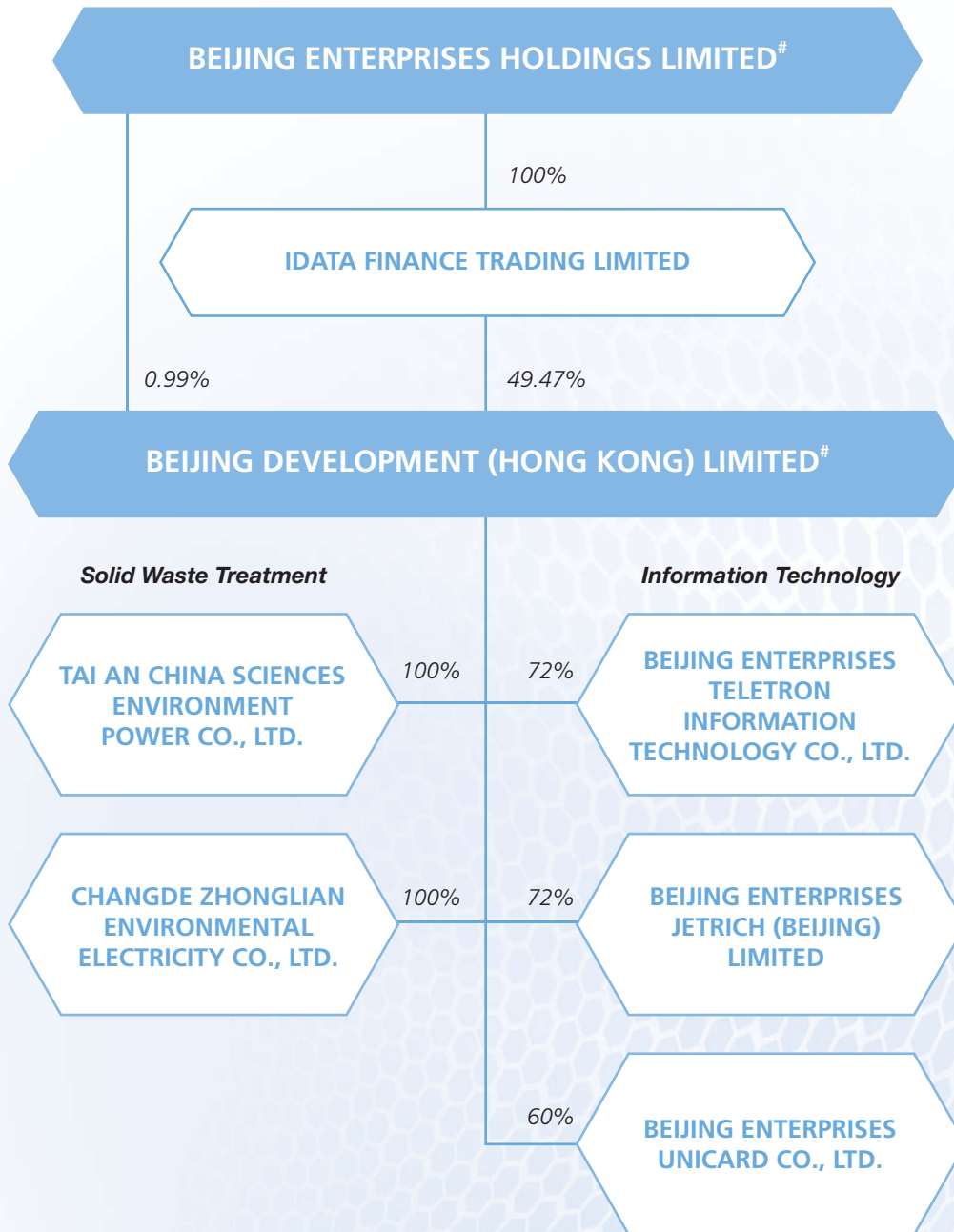
PRINCIPAL BANKERS

In Hong Kong:
Bank of China (Hong Kong)

In Mainland China:
Bank of Beijing
Bank of China
China Construction Bank
China Minsheng Bank
Huaxia Bank
The Industrial and Commercial Bank of China
Industrial Bank

CORPORATE STRUCTURE

28 August 2014



Listed on the Main Board of The Stock Exchange of Hong Kong Limited



MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

At the end of April 2014, the Group completed the acquisition of two household waste incineration power generation projects in operation in Taian, Shandong and Changde, Hunan. The acquisition represented the first step of the Group's strategic development to transform its environmental protection business by expanding to the solid waste treatment sector.

The two household waste incineration power generation projects are operated under BOT (build-own-transfer) and BOO (build-own-operate) models respectively with a daily waste treatment capacity of 2,000 tonnes in aggregate. From May to June 2014, the two household waste incineration power generation projects handled 92,300 tonnes of wastes, generating a total of 29.44 million kWh of electricity and recording an EBITDA of HK\$11.51 million. The results of operation improved and surpassed that of last year.

In the first half of 2014, the information technology business of the Group remained stagnant. Due to the fierce competition in the market, the number of completed rail transit projects decreased significantly, while other businesses, including intelligent building, outsourcing services and network operation, software development, education smart card operation and data operation for education institutions in Beijing, saw a steady development. The overall gross profit turned into loss. The Group is proactively studying the reorganisation of its information technology business.

PROSPECTS

Having prepared for two years, the Group plans to invest and operate the Beijing Haidian District Cyclic Economy Industrial Park Renewable Energy Power Generation Project. This project is a remarkable and large waste incineration power generation project under construction in Beijing and has a daily waste treatment capacity of 2,500 tonnes. The Group has entered into a licensed operation framework agreement with the Commission of City Administration and Environment of Haidian District, Beijing. Pursuant to the agreement, the project will be operated based on the public-private-partnership ("PPP") model, and the details of operation are not yet finalised. The Group expects to enter into an official licensed operation agreement and other supplemental agreements in the second half of 2014 to facilitate the trial operation of the project at the beginning of next year.

Under the rapid development of the environmental protection industry worldwide and in the PRC, with increasing waste generation and as waste incineration power generation becomes the most optimal waste treatment method, the waste incineration power generation industry in the PRC has enormous room for market development. The waste incineration power generation possesses optimistic prospects and its profitability is guaranteed by the standardisation of on-grid electricity tariff pricing policy, provisions of waste treatment subsidy and preferential tax treatment. With the sufficient technical and financial support from the management of Beijing Enterprises Holdings Limited, our parent company, and leveraging on the operating characteristics and advantages such as steady cash flow, high growth as well as stable and reliable returns, the Board believes that the strategic transformation and development in waste incineration power generation will improve the Group's financial performance, bring benefits and return to the shareholders.

In addition, the Group has the intention and is under negotiations to acquire potential solid waste treatment business and is also actively exploring other new opportunities through organic growth and strategic acquisitions to swiftly capture market share in the solid waste treatment sector in the PRC, thereby creating value for the shareholders.

FINANCIAL REVIEW

Revenue

The Group's revenue in the first half of 2014 was HK\$57.37 million, decreased by 25.4% as compared with the corresponding period of last year. The revenue generated from solid waste treatment during the post-acquisition period from May to June 2014 was HK\$24.39 million. The revenue generated from system integration contracts in rail transportation sector substantially reduced during the first half of 2014 and the total revenue generated from information technology services was HK\$32.98 million, decreased by 57.1% as compared with the corresponding period of last year.

Cost of sales

The Group's costs of sales in the first half of 2014 was HK\$54.43 million, decreased by 23.7% as compared with the corresponding period of last year.

Gross profit

The Group recorded a gross profit of HK\$2.94 million in the first half of 2014, decreased by 47.3% as compared with the corresponding period of last year. The overall gross profit margin decreased from 7.3% to 5.1%. The gross profit contributed by solid waste treatment was HK\$5.77 million whilst information technology services recorded a gross loss of HK\$2.83 million.

Other income and gains, net

The Group's other income and gains, net, of HK\$30.92 million in the first half of 2014 mainly included the gain of HK\$22.88 million on deemed partial disposal of interests in China Information Technology Development Limited ("CITD") in March 2014 and bank interest income of HK\$7.43 million.

Selling and distribution expenses

The Group's selling and distribution expenses in the first half of 2014 was HK\$3.12 million, decreased by 13.2% as compared with the corresponding period of last year.

Administrative expenses

The Group's administrative expenses in the first half of 2014 was HK\$34.10 million, increased by 8.4% as compared with the corresponding period of last year. The increase was mainly caused by the one-off transaction costs of HK\$3.45 million incurred for the acquisition of solid waste treatment businesses during the period.

Other operating expenses, net

The Group's other operating expenses, net, of HK\$19.04 million mainly included the fair value loss of HK\$18.96 million on CITD during the period from March to June 2014.

Finance costs

The Group's finance costs in the first half of 2014 was HK\$3.46 million, increased by 13.6% as compared with the corresponding period of last year. The finance costs mainly included the coupon and the imputed interest on the convertible bonds of HK\$1.11 million and HK\$2.16 million, respectively.

Share of profits and losses of joint ventures

The Group's share of profits and losses of joint ventures mainly comprised of the net loss of HK\$1.49 million from Beijing Education Information Network Services Center Co., Ltd.

Share of profits and losses of associates

The Group's share of profits and losses of associates mainly comprised of the net loss of HK\$1.01 million from CITD during the period from January to February 2014. In the first half of 2013, the Group had benefited from the exceptional gain of HK\$6.16 million on CITD's disposal of its subsidiaries.

Income tax

Certain of the Group's subsidiaries engaging in solid waste treatment enjoy income tax exemptions in Mainland China. The Group's subsidiaries engaging in information technology services are loss-making. A deferred tax credit of HK\$0.61 million is recorded for solid waste treatment in the first of half of 2014.

Loss for the period

Loss for the period contributed by each business segment attributable to shareholders of the Company during the six months ended 30 June 2014 was as follows:

	Six months ended 30 June	
	2014 HK\$'000	2013 HK\$'000
Solid waste treatment	4,702	—
Information technology	(14,565)	(11,530)
Corporate and others	(9,660)	(7,112)
Loss attributable to shareholders of the Company	(19,523)	(18,642)

Changes of major items in the interim consolidated statement of financial position

On 29 April 2014, the Group completed the acquisition of the entire equity interests in and the shareholders loans of KCS Taian Investments Company Limited and KCS Changde Investments Company Limited. The provisional fair value of net assets acquired as at the date of acquisition was HK\$844.46 million, comprising property, plant and equipment of HK\$222.98 million, prepaid land premiums of HK\$9.81 million, operating concession of HK\$461.39 million, other intangible assets of HK\$158.78 million, deferred tax liabilities of HK\$87.02 million and other net current assets of HK\$78.52 million. Provisional goodwill on acquisition amounted to HK\$82.34 million and the net cash outflow arising from the acquisition amounted to HK\$60.94 million.

FUND RAISING ACTIVITIES AND BUSINESS TRANSFORMATION

Beijing Enterprises Holdings Limited (“BEHL”, an intermediate holding company of the Company) has expressed to the Company that it intends to invest in the Company to establish an environmental protection and solid waste treatment platform.

On 28 February 2013, pursuant to the conditional subscription agreement dated 15 September 2011 (as amended by the supplemental agreements in relation thereto, collectively the “Subscription Agreement”) entered into between the Company, Idata Finance Trading Limited (“Idata”, the immediate holding company of the Company and a wholly owned subsidiary of BEHL), as subscriber, and BEHL, as guarantor, Idata has subscribed for 177,000,000 new ordinary shares of the Company at a price of HK\$1.13 per share and firm convertible bonds of the Company in the principal amount of HK\$300,580,000 at an initial conversion price of HK\$1.13 per share. The net proceeds of approximately HK\$498,610,000 was intended to be used for investment in environmental protection and solid waste treatment business, including the Beijing Haidian District Cyclic Economy Industrial Park Renewable Energy Power Generation Project (the “Haidian Project”). As at the date of this report, the investment in Haidian Project has not yet materialised and the full amount of such net proceeds have not been utilised and have been placed in a licensed bank in Hong Kong to generate interest income.

In addition, pursuant to the Subscription Agreement and subject to the Company’s satisfaction of certain pre-conditions to giving notice to Idata, the Company shall have the right to require Idata to subscribe for such amount of standby convertible bonds of an aggregate principal amount of HK\$3,000,150,000 with an initial conversion price of HK\$1.13 per share as the Company may consider appropriate.

On 24 April 2014, Idata has subscribed for the standby convertible bonds in the principal amount of HK\$113,000,000 at an initial conversion price of HK\$1.13 per share. The proceeds of HK\$113,000,000 have been fully utilised to finance the cash consideration of the KCS Acquisition (as described below) of approximately HK\$107,880,000 and the related expenses. Save for the subscription of the standby convertible bonds in the principal amount of HK\$113,000,000 as set out above, as at the date of this report, the Company has not required Idata to subscribe for any of the standby convertible bonds.

On 25 April 2014, Idata has exercised the conversion rights attaching to part of the convertible bonds in an aggregate principal amount of HK\$323,180,000 such that an aggregate of 286,000,000 new ordinary shares of the Company have been allotted and issued to Idata.

The Company confirmed that the proceeds of the subscriptions of the standby convertible bonds had been applied in accordance with the specific uses described in the Company’s circular dated 21 December 2012 (the “Subscription Circular”). The Company is in discussions with Idata (i) to extend the period within which Idata can be called upon to subscribe for further standby convertible bonds, and (ii) an increase in the amount of the standby convertible bonds Idata may be called upon to subscribe. Further details of the subscriptions are set out in the Subscription Circular and the Company’s announcements dated 28 February 2013, 27 February 2014, 24 April 2014 and 25 April 2014, respectively.

On 29 April 2014, the Group completed the acquisition of the entire equity interests in and the shareholders loans of KCS Taian Investments Company Limited and KCS Changde Investments Company Limited from an independent third party for an aggregate consideration of RMB520,000,000 (equivalent to approximately HK\$650,000,000) (the “KCS Acquisition”). The consideration has been satisfied as to RMB86,790,000 by cash and as to RMB433,210,000 by the issue of 347,000,000 ordinary shares of the Company at an issue price of HK\$1.60 per share. Further details of the KCS Acquisition are set out in the Company’s circular dated 27 March 2014.

FINANCIAL POSITION

During the six months ended 30 June 2014, the number of issued share capital of the Company has increased by 636,800,000 to 1,491,760,150, of which 347,000,000 shares were issued as consideration for acquisition of solid waste treatment businesses, 286,000,000 shares were issued upon conversion of convertible bonds by a holding company, and 3,800,000 shares were issued upon exercise of share options.

As a consequence of abovementioned fund raising activities for acquisition of solid waste treatment businesses, as at 30 June 2014, the Group's total assets increased by HK\$985 million to HK\$2,417 million and total liabilities decreased by HK\$97 million to HK\$406 million as compared with 31 December 2013. The net assets of the Group increased by HK\$1,082 million to HK\$2,011 million, of which equity attributable to shareholders of the Company amounted to HK\$2,013 million as at 30 June 2014.

The Group adopts a prudent approach in cash and financial management to ensure proper risk control and low costs of funds. The Group finances its daily operations of the existing business primarily with internally generated cash flow and existing banking facilities. However, the Group is in the progress of business transformation. When the Group comes across with acquisition or investment opportunities, the Group will first utilise the internal funding and arrange for project finance from financial institutions. Depending on its investment needs, the Group may also consider raising fund from the shareholders and potential investors of the Company and will comply with the applicable requirements under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as may be required.

During the six months ended 30 June 2014, the Group has net cash flows used in operating and investing activities of HK\$101 million and HK\$49 million, respectively, and net cash flows from financing activities of HK\$118 million. As at 30 June 2014, the cash and bank balances held by the Group amounted to HK\$1,128 million, of which HK\$479,000 were pledged as tender deposits to secure certain system integration contracts of the Group. The Group has no further charge on its assets as at 30 June 2014. As at 30 June 2014, the Company has convertible bonds of an aggregate principal amount of HK\$90.4 million at an initial conversion price of HK\$1.13 per share to its holding company for financing its investment in waste incineration power generation projects. The convertible bonds bear interest at 1% per annum and will be matured in 2018. Except for the convertible bonds, the Group did not have any bank borrowings, nor did it hold any financial derivatives. As at 30 June 2014, the Group had a net current assets of HK\$1,155 million and its current ratio has increased from 5.79 times to 6.07 times and total liabilities to assets ratio has decreased from 35.1% to 16.8%.

The Group's cash and bank balances were denominated as to 65% in Hong Kong dollars and 35% in Renminbi. The Group's businesses are principally located in Mainland China and the majority of its transactions are conducted in Renminbi. As the financial statements of the Group are presented in Hong Kong dollars, which is the Company's functional and presentation currency, the Group will be subject to translational foreign exchange risk. All differences arising on settlement or translation of monetary items are taken to the statement of profit or loss and the gains or losses arising on retranslation of foreign operations are recognised in the exchange fluctuation reserve. During the six months ended 30 June 2014, the Group did not enter into any foreign currencies hedging arrangements.

During the six months ended 30 June 2014, the Group had capital expenditures for acquisition of waste incineration power generation projects of HK\$926.8 million and purchase of equipment of HK\$0.7 million, respectively. As at 30 June 2014, save as the potential investment in waste incineration power generation projects, the Group had capital commitment of HK\$8 million for the balance payment of a property. The Group did not have any material contingent liabilities.

EMPLOYEES

As at 30 June 2014, the Group had 468 (31 December 2013: 240) employees, and of which 201 employees were engaged in the environmental protection segment and 252 employees were engaged in the information technology segment. The Group's total expenses on employee benefits for the six months ended 30 June 2014 amounted to HK\$24.17 million, increased by 4.8% as compared with HK\$23.07 million in the corresponding period of last year. The Group's employee remuneration policy and package are periodically reviewed by the management based on the employees' work performance, professional experiences and prevailing market practices. The Group encourages and finances its employees to attend training courses in the fields of their job responsibilities. Discretionary bonuses are awarded to certain employees according to the assessment of individual performance.

The Company has operated a share option scheme for the Group's employees and directors. As at 30 June 2014, the Company had 47,120,000 share options outstanding, which were granted on 21 June 2011 at an exercise price of HK\$1.25 per share and represented 3.16% of the Company's ordinary shares in issue as at 30 June 2014.

APPRECIATION

The Board would like to express our gratitude to all employees, shareholders and parties from different sectors for their support to the Group.

By order of the Board

E Meng
Chairman

Hong Kong
28 August 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Six months ended 30 June 2014

	Notes	Six months ended 30 June	
		2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
REVENUE	4	57,368	76,943
Cost of sales		(54,428)	(71,363)
Gross profit		2,940	5,580
Other income and gains, net	4	30,921	9,210
Selling and distribution expenses		(3,123)	(3,597)
Administrative expenses		(34,095)	(31,459)
Other operating expenses, net		(19,036)	(23)
LOSS FROM OPERATING ACTIVITIES	5	(22,393)	(20,289)
Finance costs	6	(3,457)	(3,042)
Share of profits and losses of:			
Joint ventures		(1,486)	(7,264)
Associates		(1,118)	3,723
LOSS BEFORE TAX		(28,454)	(26,872)
Income tax	7	611	—
LOSS FOR THE PERIOD		(27,843)	(26,872)
ATTRIBUTABLE TO:			
Shareholders of the Company		(19,523)	(18,642)
Non-controlling interests		(8,320)	(8,230)
		(27,843)	(26,872)
LOSS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY			
— Basic and diluted (HK cents)	9	(1.80)	(2.34)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Six months ended 30 June 2014

	Six months ended 30 June	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
LOSS FOR THE PERIOD	(27,843)	(26,872)
OTHER COMPREHENSIVE INCOME/(LOSS)		
Items to be reclassified to the consolidated statement of profit or loss in subsequent periods:		
Exchange differences:		
— Translation of foreign operations	(11,696)	12,149
— Release upon disposal of a subsidiary	—	(706)
— Release upon deemed partial disposal of interests in an associate	(2,222)	—
Share of other comprehensive loss of an associate	(80)	(1,301)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF INCOME TAX	(13,998)	10,142
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	(41,841)	(16,730)
ATTRIBUTABLE TO:		
Shareholders of the Company	(32,411)	(9,710)
Non-controlling interests	(9,430)	(7,020)
	(41,841)	(16,730)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2014

		30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
	<i>Notes</i>		
ASSETS			
Non-current assets:			
Property, plant and equipment		228,996	9,747
Investment properties		46,559	47,752
Prepaid land premiums		9,772	—
Goodwill	15	82,336	—
Operating concession	10	458,124	—
Other intangible assets		159,939	2,857
Investments in joint ventures		9,582	11,986
Investments in associates		2,833	25,910
Trade receivables	11	3,704	7,678
Prepayment		32,000	32,821
Total non-current assets		1,033,845	138,751
Current assets:			
Inventories		25,837	9,609
Amounts due from contract customers		1,298	1,331
Trade and bills receivables	11	113,514	68,101
Prepayments, deposits and other receivables		91,004	36,894
Equity investments at fair value through profit or loss		23,504	—
Pledged deposits		479	3,200
Cash and cash equivalents		1,127,404	1,173,990
Total current assets		1,383,040	1,293,125
TOTAL ASSETS		2,416,885	1,431,876

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2014

	Notes	30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Issued capital	12	2,212,302	854,960
Reserves		(199,194)	66,365
		2,013,108	921,325
Non-controlling interests		(1,693)	7,737
TOTAL EQUITY		2,011,415	929,062
Non-current liabilities:			
Trade payables	13	4,143	6,863
Convertible bonds	14	87,179	272,541
Deferred tax liabilities		86,411	—
Total non-current liabilities		177,733	279,404
Current liabilities:			
Trade payables	13	69,109	116,390
Amounts due to contract customers		1,546	1,585
Other payables and accruals		150,409	98,591
Income tax payables		6,673	6,844
Total current liabilities		227,737	223,410
TOTAL LIABILITIES		405,470	502,814
TOTAL EQUITY AND LIABILITIES		2,416,885	1,431,876

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 2014

	Attributable to shareholders of the Company											
	Issued capital (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Capital redemption reserve (Unaudited) HK\$'000	Share option reserve (Unaudited) HK\$'000	Equity component	Capital reserve (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	PRC reserve funds (Unaudited) HK\$'000	Accumulated losses (Unaudited) HK\$'000	Total (Unaudited) HK\$'000	Non-controlling interests (Unaudited) HK\$'000	Total equity (Unaudited) HK\$'000
					of convertible bonds (Unaudited) HK\$'000							
At 1 January 2014	854,960	192,892	9,721	27,653	31,971	1,878	89,936	36,781	(324,467)	921,325	7,737	929,062
Loss for the period	—	—	—	—	—	—	—	—	(19,523)	(19,523)	(8,320)	(27,843)
Other comprehensive loss for the period:												
Exchange differences:												
Translation of foreign operations	—	—	—	—	—	—	(10,586)	—	—	(10,586)	(1,110)	(11,696)
Release upon deemed partial disposal of interests in an associate	—	—	—	—	—	—	(2,222)	—	—	(2,222)	—	(2,222)
Share of other comprehensive loss of an associate	—	—	—	—	—	—	(80)	—	—	(80)	—	(80)
Total comprehensive loss for the period	—	—	—	—	—	—	(12,888)	—	(19,523)	(32,411)	(9,430)	(41,841)
Transfer to issued capital (note 12(a))	202,613	(192,892)	(9,721)	—	—	—	—	—	—	—	—	—
Conversion of convertible bonds into shares (note 12(b))	329,119	—	—	—	(32,815)	—	—	—	—	296,304	—	296,304
Acquisition of subsidiaries (note 12(c))	818,920	—	—	—	—	—	—	—	—	818,920	—	818,920
Issue of shares upon exercise of share options (note 12(d))	6,690	—	—	(1,940)	—	—	—	—	—	4,750	—	4,750
Issue of convertible bonds (note 14)	—	—	—	—	4,220	—	—	—	—	4,220	—	4,220
Deemed partial disposal of interests in an associate	—	—	—	—	—	(1,757)	—	—	1,757	—	—	—
At 30 June 2014	2,212,302	—	—	25,713*	3,376*	121*	77,048*	36,781*	(342,233)*	2,013,108	(1,693)	2,011,415

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 2014

	Attributable to shareholders of the Company											
	Issued capital (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Capital redemption reserve (Unaudited) HK\$'000	Share option reserve (Unaudited) HK\$'000	Equity component of convertible bonds (Unaudited) HK\$'000	Capital reserve (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	PRC reserve funds (Unaudited) HK\$'000	Accumulated losses (Unaudited) HK\$'000	Total (Unaudited) HK\$'000	Non-controlling interests (Unaudited) HK\$'000	Total equity (Unaudited) HK\$'000
At 1 January 2013	677,460	170,319	9,721	27,882	—	2,943	75,743	36,781	(301,048)	699,801	15,380	715,181
Loss for the period	—	—	—	—	—	—	—	—	(18,642)	(18,642)	(8,230)	(26,872)
Other comprehensive income/ (loss) for the period:												
Exchange differences:												
Translation of foreign operations	—	—	—	—	—	—	10,939	—	—	10,939	1,210	12,149
Release upon disposal of a subsidiary	—	—	—	—	—	—	(706)	—	—	(706)	—	(706)
Share of other comprehensive loss of an associate	—	—	—	—	—	—	(1,301)	—	—	(1,301)	—	(1,301)
Total comprehensive income/ (loss) for the period	—	—	—	—	—	—	8,932	—	(18,642)	(9,710)	(7,020)	(16,730)
Issue of new shares	177,000	23,010	—	—	—	—	—	—	—	200,010	—	200,010
Issue of convertible bonds	—	—	—	—	31,971	—	—	—	—	31,971	—	31,971
Shares issue expense	—	(791)	—	—	—	—	—	—	—	(791)	—	(791)
Disposal of a subsidiary	—	—	—	—	—	—	—	—	—	—	(4,903)	(4,903)
Share of reserves of an associate	—	—	—	—	—	(1,065)	—	—	1,065	—	—	—
At 30 June 2013	854,460	192,538	9,721	27,882	31,971	1,878	84,675	36,781	(318,625)	921,281	3,457	924,738

* These reserve accounts comprise the consolidated negative reserves of HK\$199,194,000 (31 December 2013: reserves of HK\$66,365,000) in the consolidated statement of financial position.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Six months ended 30 June 2014

	Notes	Six months ended 30 June	
		2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(28,454)	(26,872)
Adjustments for:			
Gain on disposal of a subsidiary	4	—	(1,535)
Gain on deemed partial disposal of interests in an associate	4	(22,878)	—
Share of profits and losses of joint ventures		1,486	7,264
Share of profits and losses of associates		1,118	(3,723)
Bank interest income	4	(7,433)	(6,631)
Finance costs	6	3,457	3,042
Depreciation	5	4,079	1,281
Amortisation of prepaid land premiums	5	38	—
Amortisation of operating concession	5	3,293	—
Amortisation of other intangible assets	5	1,648	416
Fair value loss on equity investments at fair value through profit or loss	5	18,955	—
Others, net		174	(848)
		(24,517)	(27,606)
Net movements in items of working capital		(76,778)	(12,392)
Net cash flows used in operating activities		(101,295)	(39,998)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of subsidiaries	15	(60,937)	—
Disposal of a subsidiary		—	(48,052)
Proceeds from disposal of a joint venture		—	47,595
Decrease in time deposits with maturity of more than three months when acquired		2,500	38,221
Interest received		7,433	6,631
Others, net		1,983	605
Net cash flows from/(used in) investing activities		(49,021)	45,000

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Six months ended 30 June 2014

	Notes	Six months ended 30 June	
		2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	12(d)	4,750	200,010
Share issue expense		—	(791)
Proceeds from issue of convertible bonds	14(b)	113,000	300,580
Transaction costs on issue of convertible bonds		—	(1,189)
Net cash flows from financing activities		117,750	498,610
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of period		1,115,016	551,748
Effect of foreign exchange rate changes, net		(10,046)	12,364
CASH AND CASH EQUIVALENTS AT END OF PERIOD		1,072,404	1,067,724
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances other than time deposits		185,383	184,634
Time deposits		942,500	946,818
Less: Pledged deposits		(479)	(4,234)
Cash and cash equivalents as stated in the consolidated statement of financial position		1,127,404	1,127,218
Less: Time deposits with maturity of more than three months when acquired		(55,000)	(59,494)
Cash and cash equivalents as stated in the condensed consolidated statement of cash flows		1,072,404	1,067,724

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2014

1. BASIS OF PREPARATION

The unaudited interim condensed consolidated financial statements for the six months ended 30 June 2014 have been prepared in accordance with the applicable disclosure provisions of The Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), including compliance with Hong Kong Accounting Standard ("HKAS") 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The accounting policies and basis of preparation used in the preparation of these interim condensed consolidated financial statements are consistent with those used in the Group's annual consolidated financial statements for the year ended 31 December 2013, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include HKASs and Interpretations) issued by the HKICPA, accounting policies generally accepted in Hong Kong and the Hong Kong Companies Ordinance, except for the adoption of the new and revised HKFRSs as disclosed in note 2 below.

These interim condensed consolidated financial statements have not been audited, but have been reviewed by the Company's audit committee.

2. CHANGES IN ACCOUNTING POLICIES

The Group has adopted the following new and revised HKFRSs for the first time for the current period's condensed consolidated financial statements:

HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) — <i>Investment Entities</i>
HKAS 32 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation</i> — <i>Offsetting Financial Assets and Financial Liabilities</i>
HKAS 39 Amendments	Amendments to HKAS 39 <i>Financial Instruments: Recognition and Measurement</i> — <i>Novation of Derivatives and Continuation of Hedge Accounting</i>
HK(IFRIC)-Int 21	<i>Levies</i>

The adoption of these new and revised HKFRSs has had no significant financial effect on these interim condensed consolidated financial statements.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's operating segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other operating segments. During the six months ended 30 June 2014, the Group commenced the environmental protection and solid waste treatment business. Particulars of the Group's reportable operating segments are summarised as follows:

- (a) the solid waste treatment segment comprises the construction and operation of waste incineration plants, waste treatment and the sales of electricity and steam generated from waste incineration.
- (b) the information technology ("IT") segment comprises the sale of IT related products, the provision of system integration and maintenance services and software development.
- (c) the corporate and others segment comprises property investment and corporate income and expense items.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2014

3. OPERATING SEGMENT INFORMATION (continued)

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment's profit/(loss) for the period attributable to shareholders of the Company, which is measured consistently with the Group's profit/(loss) attributable to shareholders of the Company.

The following tables present revenue and profit/(loss) information regarding the Group's operating segments for the six months ended 30 June 2014 and 2013, respectively.

	Solid waste treatment (Unaudited) HK\$'000	Information technology (Unaudited) HK\$'000	Corporate and others (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000
For the six months ended 30 June 2014				
Segment revenue	24,388	32,980	—	57,368
Cost of sales	(18,620)	(35,808)	—	(54,428)
Gross profit/(loss)	5,768	(2,828)	—	2,940
Profit/(loss) from operating activities	4,091	(20,032)	(6,452)	(22,393)
Finance costs	—	(187)	(3,270)	(3,457)
Share of profits and losses of:				
Joint ventures	—	(1,486)	—	(1,486)
Associates	—	(1,118)	—	(1,118)
Profit/(loss) before tax	4,091	(22,823)	(9,722)	(28,454)
Income tax	611	—	—	611
Profit/(loss) for the period	4,702	(22,823)	(9,722)	(27,843)
Segment profit/(loss) attributable to shareholders of the Company	4,702	(14,565)	(9,660)	(19,523)
For the six months ended 30 June 2013				
Segment revenue	—	76,943	—	76,943
Cost of sales	—	(71,363)	—	(71,363)
Gross profit	—	5,580	—	5,580
Loss from operating activities	—	(16,147)	(4,142)	(20,289)
Finance costs	—	—	(3,042)	(3,042)
Share of profits and losses of:				
A joint venture	—	(7,264)	—	(7,264)
Associates	—	3,723	—	3,723
Loss before tax	—	(19,688)	(7,184)	(26,872)
Income tax	—	—	—	—
Loss for the period	—	(19,688)	(7,184)	(26,872)
Segment loss attributable to shareholders of the Company	—	(11,530)	(7,112)	(18,642)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2014

3. OPERATING SEGMENT INFORMATION (continued)

Segment assets and liabilities of each of the reportable operating segments are separately managed by each of the individual operating segments.

An analysis of the Group's assets and liabilities by operating segment is as follows:

	30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Unaudited) HK\$'000
Total assets:		
Solid waste treatment	1,077,300	—
Information technology	281,665	350,686
Corporate and others	1,057,920	1,081,190
	2,416,885	1,431,876
Total liabilities:		
Solid waste treatment	127,146	—
Information technology	142,371	182,676
Corporate and others	135,953	320,138
	405,470	502,814

Geographical information

Geographical information is not presented since over 90% of the Group's revenue from external customers is generated in Mainland China and over 90% of the non-current assets (other than financial assets) of the Group are located in Mainland China. Accordingly, in the opinion of the directors, the presentation of geographical information would provide no additional useful information to the users of the interim financial statements.

Information about major customers

During the six months ended 30 June 2014, the Group had transactions with three external customers (six months ended 30 June 2013: one) and a non-controlling equity holder (six months ended 30 June 2013: nil) which individually contributed to over 10% of the Group's total revenue. The revenue generated from sales to each of these customers is set out below:

	Six months ended 30 June 2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Solid waste treatment:		
Customer A	10,033	—
Customer B	7,303	—
Information technology:		
Customer C [#]	8,449	*
Customer D	6,589	*
Customer E	*	31,255

[#] A non-controlling equity holder

* Less than 10% of the Group's total revenue

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2014

4. REVENUE, OTHER INCOME AND GAINS, NET

Revenue, which is also the Group's turnover, represents (i) net sales of electricity and steam; (ii) income from waste treatment; (iii) the aggregate of the invoiced value of goods sold, net of value-added tax and government surcharges, and after allowances for returns and trade discounts; and (iv) the value of services rendered, net of business tax, during the period.

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

	Notes	Six months ended 30 June	
		2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Revenue			
Solid waste treatment		7,253	—
Sale of electricity		16,884	—
Sale of steam		251	—
Information technology		32,980	76,943
		57,368	76,943
Other income			
Bank interest income		7,433	6,631
Imputed interest on interest-free trade receivables with extended credit periods		(127)	401
Government grants released		—	259
Others		538	384
		7,844	7,675
Gains, net			
Gain on deemed partial disposal of interests in an associate	(a)	22,878	—
Gain on disposal of a subsidiary	(b)	—	1,535
Foreign exchange differences, net		199	—
		23,077	1,535
Other income and gains, net		30,921	9,210

Notes:

- (a) The gain on deemed partial disposal of interests in an associate recognised during the period arose from the dilution of the Group's equity interest in China Information Technology Development Limited ("CITD") from approximately 21.1% to 7.03% upon the allotment and issue of 1,796,981,272 new ordinary shares by CITD under an open offer on 7 March 2014.
- (b) The gain on disposal of a subsidiary recognised during the period ended 30 June 2013 arose from the disposal of the entire issued share capital of Alison Development Limited ("Alison"), an indirectly wholly-owned subsidiary of the Company, and the indebtedness advanced by the Company to Alison for an aggregate cash consideration of HK\$8,500,000. Alison is an investment holding company and its sole investment is a 59.5% equity interest in 北京北控文化體育有限公司.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2014

5. LOSS FROM OPERATING ACTIVITIES

The Group's loss from operating activities is arrived at after charging:

	Six months ended 30 June	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Depreciation	4,079	1,281
Amortisation of prepaid land premiums	38	—
Amortisation of operating concession	3,293	—
Amortisation of other intangible assets	1,648	416
Fair value loss on equity investments at fair value through profit or loss*	18,955	—

* Fair value loss on equity investments at fair value through profit or loss is included in "Other operating expenses, net" in the consolidated statement of profit or loss.

6. FINANCE COSTS

	Six months ended 30 June	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Interest on convertible bonds	1,108	1,013
Imputed interest on convertible bonds (note 14)	2,162	2,029
Imputed interest on interest-free trade payables with extended credit periods	187	—
	3,457	3,042

7. INCOME TAX

No provision for Hong Kong profits tax has been made for the six months ended 30 June 2014 as the Group did not generate any assessable profits arising in Hong Kong during the period (six months ended 30 June 2013: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof. The subsidiaries incorporated in Mainland China are subject to a corporate income tax rate of 25% on their taxable profits. However, in accordance with the relevant tax laws in the People's Republic of China ("PRC"), certain subsidiaries in solid waste treatment segment are exempted from corporate income tax for the first three years since the year when they started to generate waste treatment revenue, and are entitled to a 50% tax reduction for the succeeding three years.

	Six months ended 30 June	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Deferred tax credit for the period — Mainland China	611	—

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2014

8. INTERIM DIVIDEND

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2014 (six months ended 30 June 2013: Nil).

9. LOSS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The calculation of basic loss per share amounts for the period is based on the loss for the period attributable to shareholders of the Company, and the weighted average of 1,082,650,758 (six months ended 30 June 2013: 797,741,918) ordinary shares in issue during the period.

No adjustment has been made to the basic loss per share amounts presented for the six months ended 30 June 2014 and 2013 as the convertible bonds and share options of the Company outstanding during these periods have an anti-dilutive effect on the respective basic loss per share amounts for these periods.

10. OPERATING CONCESSION

During the period, the Group acquired the entire equity interest of KCS Changde Investments Company Limited ("KCS Changde") from an independent third party, further details of the acquisition are set out in note 15 to the interim financial statements.

The subsidiary of KCS Changde has entered into a service concession arrangement with a governmental authority in Mainland China on a Build-Operate-Transfer ("BOT") basis in respect of the right to operate a waste-to-energy plant in the PRC. Such service concession arrangement is accounted for under HK(IFRIC) — *Int 12 Service Concession Arrangements*. This service concession arrangement involves the Group as an operator (i) constructing the infrastructures for the arrangement on a BOT basis; and (ii) operating and maintaining the infrastructures at a specified level of serviceability on behalf of the relevant governmental authority for a period of 25 years (the "Service Concession Period"), and the Group will be paid for its services over the Service Concession Period at a price stipulated through a pricing mechanism. The Group is entitled to, where appropriate, use all the property, plant and equipment of the infrastructures, however, the relevant governmental authority as grantor will control and regulate the scope of services the Group must provide with the infrastructures, and retain the beneficial entitlement to any residual interest in the infrastructures at the end of the term of the Service Concession Period. The service concession arrangement is governed by a contract and supplementary agreements entered into between the Group and the relevant governmental authority in Mainland China that set out, inter alia, performance standards, mechanisms for adjusting prices for the services rendered by the Group, specific obligations levied on the Group to restore the infrastructures to a specified level of serviceability at the end of the Service Concession Period, and arrangements for arbitrating disputes.

The balance as at 30 June 2014 represents the right that the Group can charge users under the service concession contract. It is a non-guarantee receipt right to receive cash because the chargeable amounts are contingent on the extent that the users use the service. The cost of the operating concession acquired in a business combination is the fair value as at the date of acquisition. Subsequent to initial recognition, the operating concession is measured at cost less accumulated amortisation and accumulated impairment losses. Amortisation is provided on the straight-line basis over the estimated useful life of approximately 23 years since the acquisition of the waste-to-energy operations.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2014

11. TRADE AND BILLS RECEIVABLES

Various companies of the Group have different credit policies, depending on the requirements of their markets in which they operate and the businesses they engage in. The credit period granted to customers is generally one to six months, with an instalment period extended up to six years for major customers in information technology segment. An aged analysis of the trade and bills receivables is regularly prepared and closely monitored in order to minimise any related credit risk. Trade and bills receivables are non-interest-bearing and the Group does not hold any collateral or other credit enhancements over its trade and bills receivable balances.

An aged analysis of the Group's trade and bills receivables as at the end of the reporting period, based on the payment due date and net of impairment, is as follows:

	30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
Neither past due nor impaired	33,301	40,959
Past due but not impaired:		
Within 3 months	39,575	20,363
4 to 6 months	7,084	—
7 to 12 months	24,058	1,748
Over 1 year	13,200	12,709
	83,917	34,820
Portion classified as current assets	117,218 (113,514)	75,779 (68,101)
Non-current portion	3,704	7,678

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2014

12. SHARE CAPITAL

Shares

A summary of the movements in the Company's issued share capital during the six months ended 30 June 2014 is as follows:

	Notes	Number of ordinary shares in issue	Issued capital (Unaudited) HK\$'000
At 1 January 2014		854,960,150	854,960
Transfer from share premium account	(a)	—	192,892
Transfer from capital redemption reserve	(a)	—	9,721
Conversion of convertible bonds into shares	(b)	286,000,000	329,119
Issue of new shares for acquisition of subsidiaries	(c)	347,000,000	818,920
Issue of shares upon exercise of share options	(d)	3,800,000	6,690
At 30 June 2014		1,491,760,150	2,212,302

Notes:

- (a) Pursuant to the transitional provisions for the abolition of the nominal value of share capital included in the new Hong Kong Companies Ordinance (Cap. 622) which became effective on 3 March 2014, the balances of share premium account and capital redemption reserve as at 3 March 2014 have been transferred to issued capital.
- (b) On 25 April 2014, certain convertible bonds with an aggregate principal amount of HK\$323,180,000 were converted into 286,000,000 ordinary shares of the Company at the conversion price of HK\$1.13 per share by Idata Finance Trading Limited ("Idata"), the immediate holding company of the Company.
- (c) On 29 April 2014, as further detailed in note 15 to the interim financial statements, 347,000,000 ordinary shares of the Company were issued as part of the consideration to acquire the entire equity interests in and shareholders loans of KCS Taian Investments Company Limited ("KCS Taian") and KCS Changde.
- (d) During the six months ended 30 June 2014, 3,800,000 ordinary shares were issued upon the exercise of the subscription rights attaching to 3,800,000 share options at the subscription price of HK\$1.25 per share by the employees of the Group.

Share Options

Details of the Company's share option scheme (the "Scheme") and the share options issued under the Scheme are set out under the heading "Share Option Scheme" in the section of "Discloseable Information" on pages 36 and 37.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2014

13. TRADE PAYABLES

The trade payables are non-interest-bearing and normally settled within one to six months, with credit periods extended up to six years offered by major suppliers in information technology segment.

An aged analysis of the Group's trade and bills payables as at the end of the reporting period, based on payment due date, is as follows:

	30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
Not past due	34,190	50,666
Past due:		
Less than 3 months	7,615	55,231
4 to 6 months	3,170	—
7 to 12 months	13,053	2,018
Over 1 year	15,224	15,338
	39,062	72,587
Portion classified as current liabilities	73,252 (69,109)	123,253 (116,390)
Non-current portion	4,143	6,863

14. CONVERTIBLE BONDS

Summary information of the Group's convertible bonds is set out as follows:

	Convertible bonds (Batch 1)	Convertible bonds (Batch 2)
Issuance date	28 February 2013	24 April 2014
Maturity date	28 February 2018	28 February 2018
Original principal amount	HK\$300,580,000	HK\$113,000,000
Coupon rate	1%	1%
Conversion price per ordinary share of the Company	HK\$1.13	HK\$1.13

Each batch of these convertible bonds is bifurcated into a liability component and an equity component for accounting purpose.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2014

14. CONVERTIBLE BONDS (continued)

A summary of the movements in the principal amount, liability and equity components of the Company's convertible bonds during the six months ended 30 June 2014 is as follows:

	Notes	Convertible bonds (Batch 1) (Unaudited) HK\$'000	Convertible bonds (Batch 2) (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Principal amount outstanding				
At 1 January 2014	(a)	300,580	—	300,580
Issue of convertible bonds	(b)	—	113,000	113,000
Conversion into ordinary shares of the Company	(c)	(300,580)	(22,600)	(323,180)
At 30 June 2014		—	90,400	90,400
Liability component				
At 1 January 2014		272,541	—	272,541
Issue of convertible bonds		—	108,780	108,780
Imputed interest expenses (note 6)		2,007	155	2,162
Conversion into ordinary shares of the Company		(274,548)	(21,756)	(296,304)
At 30 June 2014		—	87,179	87,179
Equity component				
At 1 January 2014		31,971	—	31,971
Issue of convertible bonds		—	4,220	4,220
Conversion into ordinary shares of the Company		(31,971)	(844)	(32,815)
At 30 June 2014		—	3,376	3,376

Notes:

- (a) On 28 February 2013, pursuant to the conditional subscription agreement dated 15 September 2011 (as amended by the supplemental agreements in relation thereto, collectively the "Subscription Agreement") entered into between the Company, Idata, as subscriber, and Beijing Enterprises Holdings Limited ("BEHL", an intermediate holding company of the Company whose shares are listed on the Stock Exchange), as guarantor, inter alia, convertible bonds of the Company with an aggregate principal amount of HK\$300,580,000 and an initial conversion price of HK\$1.13 per share were issued to Idata. The convertible bonds bear interest at 1% per annum and have a maturity ended on 28 February 2018. In additions, subject to the Company's satisfaction of certain pre-conditions to giving notice within one year from 28 February 2013, the Company shall have the discretion to notify Idata at any time during the term of the convertible bonds to require Idata to subscribe for such amount of standby convertible bonds of an aggregate principal amount of HK\$3,000,150,000 at the initial conversion price of HK\$1.13 per share, as the Company may, from time to time, consider appropriate. Further details of the transactions are set out in the Company's circular dated 21 December 2012 and the Company's announcement dated 28 February 2013.
- (b) On 24 April 2014, pursuant to the Subscription Agreement, Idata has subscribed for the issue of standby convertible bonds in the principal amount of HK\$113,000,000. Further details of the transaction are set out in the Company's announcement dated 24 April 2014.
- (c) On 25 April 2014, certain convertible bonds with an aggregate principal amount of HK\$323,180,000 were converted into 286,000,000 ordinary shares of the Company at the conversion price of HK\$1.13 per share.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2014

15. BUSINESS COMBINATIONS

On 29 April 2014, the Group acquired the entire equity interests in and the shareholders loans of KCS Taian and KCS Changde from an independent third party for an aggregate consideration of RMB520,000,000. The consideration was satisfied as to RMB86,790,000 (equivalent to HK\$107,880,000) by cash and as to RMB433,210,000 by the issue of 347,000,000 ordinary shares of the Company at an issue price of HK\$1.60 per share (fair value of which on issue date was HK\$2.36 per share). Further details of the transaction are set out in the Company's circular dated 27 March 2014.

KCS Taian and KCS Changde were engaged in the solid waste treatment business.

The provisional fair value of the identifiable assets and liabilities of KCS Taian and KCS Changde as at the date of acquisition were as follows:

	KCS Taian (Unaudited) HK\$'000	KCS Changde (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Net assets acquired:			
Property, plant and equipment	221,042	1,941	222,983
Prepaid land premiums	9,810	—	9,810
Operating concession	—	461,392	461,392
Other intangible assets	147,367	11,416	158,783
Inventories	3,679	1,403	5,082
Trade and bills receivables	16,396	33,217	49,613
Prepayments, deposits and other receivables	21,211	15,693	36,904
Cash and cash equivalents	23,114	23,829	46,943
Trade payables	(3,043)	(4,335)	(7,378)
Other payables and accruals	(19,374)	(33,272)	(52,646)
Deferred tax liabilities	(34,238)	(52,784)	(87,022)
	<u>385,964</u>	<u>458,500</u>	<u>844,464</u>
Provisional goodwill on acquisition			<u>82,336</u>
			<u>926,800</u>
Satisfied by:			
Cash			107,880
Issue of new ordinary shares of the Company as consideration (note 12(c))			<u>818,920</u>
			<u>926,800</u>
Net cash outflow arising from acquisition:			
Cash consideration			107,880
Cash and cash equivalents acquired			<u>(46,943)</u>
			<u>60,937</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2014

15. BUSINESS COMBINATIONS (continued)

The fair values, which are also the gross contractual amounts, of trade and bills receivables and prepayments, deposits and other receivables as at the date of acquisition amounted to HK\$49,613,000 and HK\$36,904,000, respectively, and all of which are expected to be collectible.

The Group incurred transaction costs of HK\$3,450,000 for this acquisition. These transaction costs have been expensed and also included in administrative expenses in the consolidated statement of profit or loss.

The provisional goodwill of HK\$82,336,000 arising from the acquisition is attributable to the deferred tax liabilities recognised for the fair value adjustments of the operation right of KCS Taian and operation concession of KCS Changde. None of the goodwill arising from this acquisition is expected to be deductible for tax purpose.

The goodwill arising from the above acquisition is determined on a provisional basis as the Group is in the process of completing the independent valuation to assess the fair value of the identified assets acquired. It may be adjusted upon the completion of initial accounting year which shall not exceed one year from the acquisition date.

During the period, the acquired business contributed HK\$24,388,000 and HK\$4,702,000 to the Group's revenue and profit for the period between the date of acquisition and the end of the reporting period, respectively.

Had the above acquisition been effected at the beginning of the interim period, the total amount of revenue of the Group for the six months ended 30 June 2014 would have been HK\$102,689,000, and the amount of the loss for the interim period would have been HK\$24,957,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisitions been completed at the beginning of the interim period, nor is it intended to be a projection of future results.

16. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 30 June 2014 (31 December 2013: Nil).

17. CAPITAL COMMITMENTS

At 30 June 2014, the Group had capital commitment in respect of a property of HK\$8,000,000 (31 December 2013: HK\$8,205,000), which is contracted, but not provided for. Further details are set out in note 18(b) to the interim financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2014

17. CAPITAL COMMITMENTS (continued)

In addition, the Group also entered into certain agreements in relation to the investment in waste-to-energy projects:

- (a) On 30 May 2012, the Company entered into a framework agreement for investment and cooperation in Shanxi domestic garbage incineration-power generation project with 山西國際能源集團有限公司, 北京北控環保工程技術有限公司 (an indirect wholly-owned subsidiary of BEHL) and 山西省環境保護基金有限公司. Further details of the transactions are set out in the Company's announcement dated 30 May 2012. At the date of approval of these interim financial statements, the concrete investment and cooperation arrangements are subject to further negotiations and the legal documents to be entered into by the relevant parties.
- (b) On 28 June 2012, Beijing Development Environmental Protection (Haidian) Limited ("BDEP Haidian"), a wholly-owned subsidiary of the Company, entered into an increase of capital contract (the "Increase of Capital Contract") with 北京市海澱區國有資本經營管理中心, 北京中海投資管理公司, 北京海融達投資建設有限公司 and 北京市海澱區國有資產投資經營有限公司 for injecting capital into 北京綠海能環保有限責任公司 (the "Joint Venture") for investing, constructing and operating the Beijing Haidian District Cyclic Economy Industrial Park Renewable Energy Power Generation Project (the "Project") in Beijing, the PRC. Pursuant to the Increase of Capital Contract, BDEP Haidian will (i) inject RMB256,000,000 (equivalent to approximately HK\$324,051,000) to the Joint Venture as an additional registered capital of the Joint Venture; (ii) inject a maximum amount of RMB27,550,000 (equivalent to approximately HK\$34,873,000) as an equity premium of the Joint Venture and (iii) make available shareholder's loans of an aggregate amount of RMB644,000,000 (equivalent to approximately HK\$815,190,000) to the Joint Venture. On 29 April 2014, BDEP Haidian and Commission of City Administration and Environment, Haidian District, Beijing Municipality entered into a licensed operation framework agreement setting out the major principles regarding the licensed operation of the Project by a limited liability company to be established in the PRC to act as the licensed company to operating the Project. These transactions may constitute a very substantial acquisition of the Company and are subject to the shareholders' approval requirements under Chapter 14 of the Listing Rules. Further details of the transactions are set out in the Company's announcements dated 28 June 2012 and 29 April 2014. At the date of approval of these interim financial statements, these transactions, which are subject to, inter alia, approvals from the Stock Exchange and the shareholders of the Company, have not yet been completed.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2014

18. RELATED PARTY DISCLOSURES

- (a) In addition to the transactions detailed elsewhere in these interim financial statements, the Group had the following material transactions with related parties during the period:

	Notes	Six months ended 30 June	
		2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
With an immediate holding company:			
Interest on convertible bonds	(i)	1,108	1,013
With fellow subsidiaries:			
Property services fee [#]	(ii)	874	867
Rental expenses [@]	(iii)	120	120
With a non-controlling equity holder:			
Sales of products	(iv)	6,427	4,203
Services income	(iv)	2,022	—
With a related company:			
Purchase of goods [#]	(v)	150	4,316

[#] These transactions constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

[@] These transactions constitute continuing connected transactions that are exempted from the reporting, announcement and independent shareholders' approval requirements as defined in Chapter 14A of the Listing Rules.

Notes:

- (i) The interest on convertible bonds payable to Idata was determined by the bond instruments signed on 28 February 2013 and 24 April 2014.
- (ii) The property services fee payable to 北京北控宏創科技有限公司 ("Hong Chuang"), a subsidiary of BEHL, was determined in accordance with the property services contract (the "Property Services Contract") dated 31 December 2012, pursuant to which Hong Chuang will provide property management services in respect of the public areas and public installation and facilities of the Property. Further details of the Property Services Contract are set out in the Company's announcement dated 31 December 2012.
- (iii) The rental expenses payable to Beijing Enterprises (Properties) Limited, a subsidiary of BEHL, was determined by reference to the prevailing market rentals.
- (iv) The sales of products to and services income from 北京教育網絡和信息中心 were mutually agreed between the parties.
- (v) The purchase prices of goods from 北京市政交通一卡通有限公司, a joint venture of 北京控股集團有限公司 ("BEGCL", the ultimate holding company of the Company), were mutually agreed between the parties under the framework agreement dated 30 March 2012, regarding the supplies of merchandise and related services of municipal administration and communications card, namely "一卡通", to the Group. Further details of the transactions are set out in the Company's announcement dated 30 March 2012.

(b) Commitments with related parties

Pursuant to the entering of a property transfer agreement on 14 February 2012, the Company has commitment of the balance of consideration of RMB6,400,000 (equivalent to approximately HK\$8,000,000) payable to Hong Chuang upon the completion of the acquisition of a property in Beijing.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2014

18. RELATED PARTY DISCLOSURES (continued)

(c) Outstanding balances with related parties

	30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
Trade receivables from:		
A non-controlling equity holder	3,002	3,292
Other receivables from:		
Fellow subsidiaries	79	82
A joint venture	633	485
An associate	800	—
Non-controlling equity holders	1,112	868
Other related companies	286	314
Prepayment to:		
A fellow subsidiary	32,000	32,821
Trade payables to:		
A joint venture	—	646
Associates	3,647	5,373
Other payables to:		
The immediate holding company	1,108	—
Fellow subsidiaries	849	1,887
A joint venture	14	—
Associates	91	1,937
Non-controlling equity holders	21,283	20,000

The balances with related parties are unsecured and interest-free.

(d) Compensation of key management personnel of the Group

	Six months ended 30 June	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Short term employee benefits	2,675	2,244
Post-employment benefits	223	150
Total compensation paid to key management personnel	2,898	2,394

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2014

18. RELATED PARTY DISCLOSURES (continued)

(e) Transactions with other state-owned entities in Mainland China

The Company is a state-owned enterprise of the PRC government and is subject to the control of The State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality and ultimate control of the PRC government. The Group operates in an economic environment predominated by enterprises directly or indirectly owned and/or controlled by the PRC government through its numerous authorities, affiliates or other organisations (collectively "Other SOEs"). During the period, the Group has transactions with the Other SOEs including, but not limited to, the sale of electricity, provision of waste treatment and construction services, bank deposits and utilities consumptions. The directors consider that the transactions with the Other SOEs are activities in the ordinary course of the Group's businesses, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and the Other SOEs are ultimately controlled or owned by the PRC government. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are Other SOEs. Having due regard to the substance of the relationships, the directors are of the opinion that none of these transactions are material related party transactions that require separate disclosure.

19. OTHER FINANCIAL INFORMATION

The net current assets and total assets less current liabilities of the Group as at 30 June 2014 amounted to HK\$1,155,303,000 (31 December 2013: HK\$1,069,715,000) and HK\$2,189,148,000 (31 December 2013: HK\$1,208,466,000), respectively.

20. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, the Group has disposed its approximately 7.03% equity investments in CITD to an independent third party at the consideration of HK\$22,936,000 on 18 August 2014.

21. COMPARATIVE PRESENTATION

Owing to the Company became a subsidiary of BEHL during the year ended 31 December 2013, the presentation of the consolidated statement of profit or loss, consolidated statement of financial position, condensed consolidated statement of cash flows and relevant disclosure notes to the interim financial statements have been reclassified to align with those of BEHL.

22. APPROVAL OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These condensed consolidated financial statements were approved and authorised for issue by the board of directors on 28 August 2014.

DISCLOSEABLE INFORMATION

DIRECTORS

The directors of the Company during the six months ended 30 June 2014 and up to the date of this report were:

Executive directors:

Mr. E Meng (*Chairman*)

Mr. Zhang Honghai

Mr. Ke Jian (*Vice Chairman and Chief Executive Officer*)

Mr. Wang Yong

(*resigned on 28 August 2014*)

Ms. Sha Ning (*Vice President*)

Ms. Qin Xuemin (*Vice President*)

Mr. Ng Kong Fat, Brian

Independent non-executive directors:

Dr. Jin Lizuo

Dr. Huan Guocang

Dr. Wang Jianping

Prof. Nie Yongfeng

(*appointed on 1 January 2014*)

Mr. Cheung Ming

(*appointed on 28 August 2014*)

Biographical information of Mr. Cheung Ming

Mr. Cheung Ming, aged 53, currently an executive director and the chief executive officer of BEP International Holdings Limited ("BEP", stock code: 2326). Prior to joining BEP, he had served as the executive director of Hengli & Liqi Furniture Limited ("Hengli"), a Hong Kong company specialising in the production of furniture for sale to Europe markets, and was responsible for the international business development of Hengli. Before joining Hengli, Mr. Cheung had served as the chief executive officer of a Hong Kong based retail company. From 17 May 2011 to 21 October 2011, Mr. Cheung served as an executive director and the chief executive officer of Xinhua News Media Holdings Limited (formerly known as Lo's Enviropro Holdings Limited, stock code: 309). Mr. Cheung has extensive business management experience including over 30 years of experience in retail business and international trade in Mainland China, Hong Kong and Taiwan. Mr. Cheung had been leading the companies he served in setting down long-term development blueprints including strategies for corporate and business development as well as brand building to enhance their market competitiveness and profitability, which laid the solid foundation for their sustainable growth in the Greater China and Asia-Pacific regions.

On 28 August 2014, Mr. Wang Yong resigned as the president of the Company and Mr. Ke Jian was appointed as the chief executive officer of the Company. Save as disclosed herewith, since the issue date of the Company's 2013 annual report, there has been no change in directors' information that is required to be disclosed pursuant to Rule 13.51B(1) of the Rules Governing The Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

DIRECTORS' SERVICE CONTRACTS

At 30 June 2014, no director had a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as the transactions with 北京控股集團有限公司 ("BEGCL") and its subsidiaries, further details of which are set out in notes 14 and 18 to the interim financial statements, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding companies, or any of its subsidiaries or fellow subsidiaries was a party during the six months ended 30 June 2014.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 30 June 2014, the interests and short positions of the directors and chief executive in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules (the "Model Code"), were as follows:

Long positions in ordinary shares of the Company:

Name of director	Number of ordinary shares held, capacity and nature of interest			Percentage of the number of the Company's issued shares
	Directly beneficially owned	Through a controlled corporation	Total	
Mr. E Meng	601,000	—	601,000	0.04
Mr. Zhang Honghai	4,000,000	—	4,000,000	0.27
Mr. Ng Kong Fat, Brian	1,600,000	8,792,755 [#]	10,392,755	0.70
	6,201,000	8,792,755	14,993,755	1.01

[#] The 8,792,755 ordinary shares are held by Sunbird Holdings Limited, a company beneficially owned by Mr. Ng Kong Fat, Brian and his associate.

Long positions in share options of the Company:

The interests of the directors in the share options of the Company are separately disclosed in the section "Share Option Scheme" below.

Long positions in share options in an associated corporation of the Company — Beijing Properties (Holdings) Limited:

Name of director	Number of share options directly beneficially owned		Total
	Note (a)	Note (b)	
Mr. E Meng	5,000,000	3,600,000	8,600,000
Mr. Zhang Honghai	6,000,000	5,000,000	11,000,000
	11,000,000	8,600,000	19,600,000

Notes:

- (a) These share options were granted on 28 October 2011 at an exercise price of HK\$0.465 per share. These share options may be exercised at any time commencing on 28 October 2011, and if not otherwise exercised, will lapse on 27 October 2021.
- (b) These share options were granted on 1 June 2012 at an exercise price of HK\$0.41 per share. These share options may be exercised at any time commencing on 1 June 2012, and if not otherwise exercised, will lapse on 31 May 2022.

Save as disclosed above, as at 30 June 2014, none of the directors and chief executive had registered an interest or a short position in the shares or underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEME

The Company operates a share option scheme (the “Scheme”) which became effective on 31 May 2011 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. The purpose of the Scheme is (i) to attract and retain the best quality personnel for the development of the Company’s business; (ii) to provide incentives or rewards to eligible participants; and (iii) to promote the long term financial success of the Company by aligning the interests of grantees to shareholders. Eligible participants of the Scheme include (i) any person employed by the Company or a subsidiary of the Company and any person who is an officer or director (whether executive or non-executive) of the Company or any subsidiary of the Company; (ii) any non-executive director and any independent non-executive director or officer of any member of the Group; and (iii) any consultant of any member of the Group.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 30% of the number of ordinary shares of the Company in issue at any time. The maximum number of ordinary shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the ordinary shares of the Company in issue at any time. Any further grant of share options in excess of these limits is subject to shareholders’ approval in a general meeting.

Share options granted to a director or chief executive of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the ordinary shares of the Company in issue at any time or with an aggregate value (based on the price of the Company’s ordinary shares at the date of grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders’ approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences on the date of acceptance of the share options or after a certain vesting period, if any, and ends on a date which is not later than 10 years from the date of offer of the share options.

The exercise price of share options is determinable by the directors, but may not be less than the highest of (i) the closing price of the Company’s ordinary shares on the Stock Exchange on the date of offer of the share options; (ii) the average closing price of the Company’s ordinary shares on the Stock Exchange for the five trading days immediately preceding the date of offer; and (iii) the nominal value of the Company’s ordinary shares.

The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other similar changes in the Company’s share capital.

Share options do not confer rights on the holders to dividends or to vote at shareholders’ meetings. The share options are non-transferrable and lapsed when expired or upon three months from the date of which the grantee ceased to be an employee, a director or a consultant of the Group.

DISCLOSEABLE INFORMATION

SHARE OPTION SCHEME (continued)

The following table discloses movements in the Company's share options outstanding during the six months ended 30 June 2014:

Name or category of participant	Number of share options		
	At 1 January 2014	Exercised during the period	At 30 June 2014
Executive directors:			
Mr. E Meng	6,770,000	—	6,770,000
Mr. Zhang Honghai	6,770,000	—	6,770,000
Mr. Wang Yong	6,770,000	—	6,770,000
Mr. Ng Kong Fat, Brian	5,500,000	—	5,500,000
Independent non-executive directors:			
Dr. Jin Lizuo	670,000	—	670,000
Dr. Huan Guocang	670,000	—	670,000
Dr. Wang Jianping	670,000	—	670,000
Other employees:			
In aggregate	23,100,000	(3,800,000)	19,300,000
	50,920,000	(3,800,000)	47,120,000

The outstanding share options were granted on 21 June 2011 at an exercise price of HK\$1.25 (subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital) per ordinary share of the Company. The share options may be exercised at any time commencing on 21 June 2011, and if not otherwise exercised, will lapse on 20 June 2021.

At 30 June 2014, the Company had 47,120,000 share options outstanding, which represented approximately 3.16% of the Company's ordinary shares in issue as at that date. The exercise in full of these outstanding share options would, under the present capital structure of the Company, result in the issue of 47,120,000 additional ordinary shares of the Company and additional share capital of HK\$84,612,800 (including transfer from share option reserve).

Subsequent to the reporting date, 1,500,000 share options outstanding at 30 June 2014 were exercised in July 2014. At the date of approval of these interim financial statements, the Company had 45,620,000 share options outstanding, which represented approximately 3.06% of the Company's ordinary shares in issue as at that date.

Save as disclosed above, at no time during the six months ended 30 June 2014 were rights to acquire benefits by means of the acquisition of shares in the Company granted to any director or their respective spouses or minor children, or were any such rights exercised by them; or was the Company, its holding companies, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

CONTRACTS OF SIGNIFICANCE

Save as the transactions with BEGCL and its subsidiaries, further details of which are set out in notes 14 and 18 to the interim financial statements, no contracts of significance in relation to the Group's business in which the Company, any of its subsidiaries or fellow subsidiaries, or its holding companies was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted during or at the six months ended 30 June 2014.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 30 June 2014, the following interests and short positions of 5% or more of the number of issued shares of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in ordinary shares of the Company:

Name of director	Notes	Number of ordinary shares held, capacity and nature of interest			Percentage of the number of the Company's issued shares
		Directly beneficially owned	Through controlled corporation	Total	
Idata Finance Trading Limited ("Idata")		738,675,000	—	738,675,000	49.52
Beijing Enterprises Holdings Limited ("BEHL")	(a)	14,784,000	738,675,000	753,459,000	50.51
Beijing Enterprises Group (BVI) Company Limited ("BEBVI")	(b)	—	753,459,000	753,459,000	50.51
BEGCL	(b)	—	753,459,000	753,459,000	50.51
Cosmos Friendship Limited ("Cosmos")		347,000,000	—	347,000,000	23.26
Khazanah Nasional Berhad ("Khazanah")	(c)	—	347,000,000	347,000,000	23.26

Notes:

- The interest disclosed includes the ordinary shares owned by Idata. Idata is a wholly-owned subsidiary of BEHL. Accordingly, BEHL is deemed to be interested in the ordinary shares owned by Idata.
- The interests disclosed include the ordinary shares owned by BEHL and Idata. BEBVI and BEGCL are the immediate holding company and the ultimate holding company of BEHL, respectively. Accordingly, each of BEBVI and BEGCL is deemed to be interested in the ordinary shares owned by each of BEHL and Idata.
- The interest disclosed includes the ordinary shares owned by Cosmos. Cosmos is a wholly-owned subsidiary of Khazanah. Accordingly, Khazanah is deemed to be interested in the ordinary shares owned by Cosmos.

Save as disclosed above, as at 30 June 2014, no person, other than the directors of the Company, whose interests are set out in the section "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares" above, had registered an interest or a short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

PURCHASE, REDEMPTION, OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2014.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total number of issued shares was held by the public as at the date of this report.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE PRACTICES

In the opinion of the directors of the Company, save as disclosed below, the Company has complied with all the applicable code provisions (the “Code Provisions”) of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules for the six months ended 30 June 2014.

- (1) Under the Code Provision A.1.1, the board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals. It is expected regular board meetings will normally involve the active participation of a majority of directors entitled to present. However, the Company considers it is more efficient to hold board meetings to address emerging issues as appropriate. Sufficient measures have been taken to ensure that there is efficient communication among the directors.
- (2) Under the Code Provision A.2.7, the chairman should at least annually hold meetings with the non-executive directors (including independent non-executive directors) without the executive directors present. However, the Company considers it is more effective for non-executive directors to voice their views by individual communication with the chairman of the board.
- (3) Under the Code Provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election. However, all existing non-executive directors of the Company are not appointed for a specific term but subject to retirement by rotation at the annual general meeting in accordance with the Company’s articles of association.
- (4) Under the Code Provision A.6.7, independent non-executive directors and other non-executive directors should also attend general meetings and develop a balanced understanding of the views of shareholders. However, the four independent non-executive directors of the Company were unable to attend the extraordinary general meeting and the 2014 annual general meeting of the Company held during the six months ended 30 June 2014 due to other business engagements.
- (5) Under the Code Provision E.1.2, the chairman of the board should attend the annual general meeting. He should also invite the chairman of the audit, remuneration and nomination committees to attend. However, the chairman of the board and the chairmen of the board committees were unable to attend the 2014 annual general meeting of the Company due to other business engagements.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 of the Listing Rules for securities transactions by the directors of the Company. All the directors of the Company have confirmed that, following specific enquiry by the Company, they have complied with the required standard as set out in the Model Code throughout the six months ended 30 June 2014.

BOARD COMMITTEES

Audit Committee

The Audit Committee was established with written terms of reference in accordance with Rule 3.21 of the Listing Rules and the Code Provision C.3. The current members of the Audit Committee comprise three independent non-executive directors, namely Dr. Huan Guocang (committee chairman), Dr. Jin Lizuo and Dr. Wang Jianping.

The Audit Committee has reviewed the interim results, financial position, internal control, impacts of the new accounting standards and management issues of the Group for the six months ended 30 June 2014.



BOARD COMMITTEES (continued)

Remuneration Committee

The Remuneration Committee was established with terms of reference in accordance with Rule 3.25 of the Listing Rules and the Code Provision B.1. The current members of the Remuneration Committee comprise three independent non-executive directors, namely Dr. Jin Lizuo (committee chairman), Dr. Huan Guocang and Dr. Wang Jianping and the chairman of the Board, Mr. E Meng.

Nomination Committee

The Nomination Committee was established with terms of reference in accordance with the Code Provision A.5. The current members of the Nomination Committee comprise the chairman of the Board, Mr. E Meng (committee chairman), and three independent non-executive directors, namely Dr. Jin Lizuo, Dr. Huan Guocang and Dr. Wang Jianping.

Detailed terms of reference of the above Board Committees may be reference to the websites of the Company and the Stock Exchange.

INTERNAL CONTROL

The Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. The Board will conduct regular review regarding internal control systems of the Group. The Company convened meeting periodically to discuss financial, operational and risk management control. During the six months ended 30 June 2014, the Board has reviewed the operational and financial reports, budgets and business plans provided by the management.