

Chinese Energy Holdings Limited

Second Quarterly Report 2012

Stock Code : 8009



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This report, for which the directors (the “**Directors**”) of Chinese Energy Holdings Limited (the “**Company**”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “**GEM Listing Rules**”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

SUMMARY

The Group's unaudited consolidated profit attributable to owners of the Company for the six months ended 30 September 2012 was approximately HK\$115,396,000, as compared to the unaudited consolidated profit attributable to owners of the Company of approximately HK\$24,429,000 for the corresponding six-month period in 2011. No interim dividend is recommended for the period.

The Group continues to be in a healthy financial condition with current assets at a comfortable level of approximately HK\$271,950,000 at the end of the reporting period.

MANAGEMENT DISCUSSION AND ANALYSIS

During the six months period ended 30 September 2012, the principal activities of the Company together with its subsidiaries (collectively the “**Group**”) were engaged in provision of management service, investment in financial and investment products. The turnover for the Group was approximately HK\$163,058,000 as compared to approximately HK\$119,448,000 for the corresponding period in 2011.

Future Prospects

We continue our objective of enhancing the value of the Company’s shares. We will cautiously make use of excess funds on investments in Hong Kong equity market. The investment strategy is reviewed and monitored frequently and we will take appropriate actions whenever necessary in response to the changes in fundamental market situation. With adequate funds on hand, we will also continue to identify venture companies with growth potential and also possess the management ability to capture business opportunities.

Placing of New Shares under General Mandate

The Company has entered into a conditional placing agreement with the Placing Agent on 7 August 2012, under which the Placing Agent will use its best efforts to place up to 145,590,000 Placing Shares to not less than six Placees who are Independent Third Parties. The Placing Shares will be allotted and issued pursuant to the general mandate granted to the Directors by a resolution of the shareholders of the Company passed at the annual general meeting of the Company held on 16 September 2011. If all of the Placing Shares are placed, they will comprise approximately 16.02% of the enlarged issued share capital of the Company. It is expected that no Placee will become a substantial shareholder of the Company (as defined under the GEM Listing Rules) as a result of the Placing.

The Placing Price of HK\$0.11 per Placing Share represents a premium of approximately 3% to the closing price of HK\$0.107 per Share as quoted on the Stock Exchange on 6 August 2012; a premium of approximately 8% to the average closing price per Share of approximately HK\$0.102 in the last five consecutive trading days immediately prior to and including the Last Trading Day; a premium of approximately 3% to the average closing price per Share of approximately HK\$0.107 in the last ten consecutive trading days immediately prior to and including 6 August 2012. Details and capitalised terms used in this sections were set out in the Announcement dated 7 August 2012.

The Disposal of 100% Equity Interest of Plenty One Limited (“Plenty One”)

On 9 December 2011, the Vendor, Shine Gain Holdings Limited, a company incorporated in the British Virgin Islands which is a direct wholly owned subsidiary of the Company entered into the Sale and Purchase Agreement with the Purchaser and in relation to the disposal of 100% equity interest of Plenty One at the consideration of HK\$6,500,000. The conditions precedent of the Sale and Purchase Agreement having been fulfilled, as agreed between the parties to the Sale and Purchase Agreement in writing, the Completion of the Disposal took place on 14 August 2012. Upon Completion, the Consideration of HK\$6,500,000 has been received by the Vendor. Details and capitalized terms used in this sections were set out in the Announcement dated 9 December 2011 and 14 August 2012.

Change of Company Name

The change of the English name of the Company from “iMerchants Limited” to “Chinese Energy Holdings Limited” and the adoption of the new Chinese name “華夏能源控股有限公司” for replacement of its existing Chinese name “菱控有限公司” has become effective on 12 September 2012.

The Shares will be traded on the Stock Exchange under the new name. The English and Chinese stock short names of the Company will also be changed from “IMERCHANTS” to “CHI ENGY HOLD” and “菱控有限公司” to “華夏能源控股” respectively with effect from 25 September 2012. The website of the Company will be changed to www.chinese-energy.com with effect from 25 September 2012 to reflect the Change of the Company Name. Details and capitalised terms used in this sections were set out in the Announcement and Circular dated 18 July, 10 August and 21 September 2012.

BUSINESS REVIEW

Liquidity, financial resources and capital structure

The Group continues to be in a healthy financial position with current assets totaling approximately HK\$271,950,000 (31 March 2012: approximately HK\$100,235,000). The management of the Group considers its financial resources to be liquid because approximately 7.12% of this total comprised of bank balances and cash.

The Group’s gearing ratio at 30 September 2012 was 1.03% (31 March 2012: 3.39%), as calculated by taking the ratio of the Group’s total interest-bearing borrowings, divided by its shareholders’ funds. The Group has borrowings and convertible bonds as at 30 September 2012 was HK\$5,800,000 (31 March 2012: HK\$14,884,000) and no contingent liabilities as at 30 September 2012 (31 March 2012: nil). As at 30 September 2012, the Group did not pledge any asset to a financial institution in respect of the due and punctual payment of its obligations (31 March 2012: nil).

Foreign exchange exposure

As of 30 September 2012, most of the Group's business transactions, assets and liabilities are denominated in Hong Kong dollars and Renminbi. The Group's exposure to currency is minimal. The Group did not have any derivatives for hedging against the foreign exchange risk at 30 September 2012.

Credit risk

Credit risk exposure represents trade receivables from customers which principally arise from our business activities. The Group has a credit policy in place and the credit risk is monitored on an on-going basis. In order to minimize the credit risk, management of the Group reviews the recoverable amount of trade debt owned by each individual at each reporting date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Board of Directors consider that the Group's credit risk is significantly controlled. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. At the end of reporting period, the Group has a certain concentration of credit risk as 100% (31 March 2012:100%) the total trade revenue and trade receivables was due from the Group's sole customer in the PRC, Shenzhen Careall Capital Investment Co., Ltd.

Liquidity risk

The Group monitors its current and expected liquidity requirements regularly and ensuring sufficient liquid cash and adequate committed lines of funding from reputable financial institutions are available to meet the Group's liquidity requirements in the short and long term.

Investments

The Company continues to identify suitable investments in Hong Kong stock equity market as well as any industry with high growth potential in the People's Republic of China (the "PRC").

As of 30 September 2012, the Group did not have any long-term financial investments (31 March 2012: nil). The management will continue its conservative approach. In general, the investment strategy will be reviewed frequently to take appropriate actions whenever necessary in response to changes in market situation.

Revenue, gross profit and administrative expenses

During the six-month period ended 30 September 2012, the Group's turnover was approximately HK\$163,058,000 which was comprised of revenue from management fee income, as compared to a turnover of approximately HK\$119,448,000 for the corresponding six-month period in 2011. The turnover for the period was solely based on 70% of the guarantee profit for the third relevant period according to the management agreement between the Company's subsidiary and Shenzhen Careall Capital Investment Co., Ltd ("Careall") rather than the audited results of Careall which reported a loss for the relevant period.

The Group generated a net profit attributable to owners of the Company of approximately HK\$115,396,000 for the six months ended 30 September 2012, as compared to approximately HK\$24,429,000 for the corresponding period in 2011. The gross profit for the period ended 30 September 2012 was approximately HK\$146,705,000 (2011: approximately HK\$96,867,000). The Group's administrative expenses was amounted to approximately HK\$5,833,000 (2011: approximately HK\$8,137,000).

Commentary on segmental information

Geographical segments

The geographical location of the Group's financial and investment products can be categorised into the PRC and Hong Kong. Details of results by geographical segments are shown in Note 5 to the condensed interim financial statements.

Business segments

For management purposes, the Group is organized into two operating divisions during the period ended 30 September 2012. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

- (a) Provision of management service; and
- (b) Investments in financial and investment products.

Details of results by business segments are shown in Note 5 to the condensed interim financial statements.

Employees

As of 30 September 2012, the Group employed 8 staffs (31 March 2012: 9).

Remuneration for the employees of the Company is typically reviewed once a year by remuneration committee, or as the management deems appropriate. For the six months ended 30 September 2012, the total remuneration expenses, including contributions to the Mandatory Provident Fund, were approximately HK\$1,562,000 (2011: approximately HK\$2,345,000).

The Group has not granted any share option to the employees under its existing share option schemes.

Results

The board of Directors (the “**Board**”) presents the unaudited consolidated results of the Group for the three months and the six months ended 30 September 2012 together with the comparative unaudited figures for the corresponding periods in 2011 as follows:

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and six months ended 30 September 2012

	Notes	Three months ended 30 September		Six months ended 30 September	
		2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000 (restated)	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000 (restated)
Continuing operations					
Turnover	4	163,058	119,448	163,058	119,448
Cost of sales		(8,176)	(11,291)	(16,353)	(22,581)
Gross profit		154,882	108,157	146,705	96,867
Other income		141	13	141	16
Gain on redemption of convertible bonds		–	–	1,590	–
Impairment loss on intangible asset		–	(28,342)	–	(28,342)
Administrative expenses		(3,489)	(5,225)	(5,833)	(8,137)
Finance expenses		–	(5,544)	(144)	(5,653)
Profit before taxation	6	151,534	69,059	142,459	54,751
Taxation	7	(40,765)	(29,862)	(40,765)	(29,862)
Profit for the period from continuing operations		110,769	39,197	101,694	24,889
Discontinued operations					
Profit (loss) for the period from discontinued operations	8	13,701	–	13,701	(460)
Profit for the period		124,470	39,197	115,395	24,429
Other comprehensive (expenses) income for the period, net of tax					
Exchange difference arising on translation		(2,649)	(6)	(2,649)	(6)
Reclassified adjustments relating to foreign operations disposed of during the period		134	–	134	–
		(2,515)	(6)	(2,515)	(6)
Total comprehensive income for the period, net of tax		121,955	39,191	112,880	24,423
Profit for the period attributable to:					
Owners of the Company		124,471	39,197	115,396	24,429
Non-controlling interests		(1)	–	(1)	–
		124,470	39,197	115,395	24,429

	Three months ended 30 September		Six months ended 30 September	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000 (restated)	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000 (restated)
Total comprehensive income for the period attributable to:				
Owners of the Company	121,956	39,191	112,881	24,423
Non-controlling interests	(1)	–	(1)	–
	121,955	39,191	112,880	24,423
Earnings per share				
From continuing and discontinued operations				
– basic (HK cents)	15.65	6.73	14.51	4.19
– and diluted (HK cents)	15.65	6.05	14.51	3.77
From continuing operations				
– basic (HK cents)	13.93	6.73	12.79	4.27
– and diluted (HK cents)	13.93	6.05	12.79	3.84

Notes

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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the six months ended 30 September 2012

	Notes	30 September 2012 (Unaudited) HK\$'000	31 March 2012 (Audited) HK\$'000
Non-current assets			
Property, plant and equipment		697	988
Intangible asset	11	386,297	402,650
		386,994	403,638
Current assets			
Trade and other receivables	12	252,581	89,434
Loan receivables		–	3,683
Bank balances and cash		19,369	4,018
		271,950	97,135
Assets classified as held for sale		–	3,100
		271,950	100,235
Current liabilities			
Other payables		16,543	8,135
Income tax payables		72,198	31,433
		88,741	39,568
Liabilities directly associated with assets classified as held for sale		–	10,439
		88,741	50,007
Net current assets		183,209	50,228
Total assets less current liabilities		570,203	453,866
Non-current liabilities			
Borrowings		5,800	8,800
Convertible bonds	13	–	6,084
		5,800	14,884
Net assets		564,403	438,982
Capital and reserves			
Share capital	14	90,884	763,251
Reserves		473,525	(324,264)
Equity attributable to owners of the Company		564,409	438,987
Non-controlling interests		(6)	(5)
Total equity		564,403	438,982

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2012

	Six months ended 30 September	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Net cash generated from operating activities	12,642	97,014
Net cash generated from investing activities	3,684	338
Net cash generated from (used in) financing activities	1,541	(85,000)
Net increase in cash and cash equivalents	17,867	12,352
Cash and cash equivalents at beginning of period	4,018	343
Effect of foreign exchange rate changes	(2,516)	48
Cash and cash equivalents at end of period	19,369	12,743
Analysis of balances of cash and cash equivalents Represented by bank balances and cash	19,369	12,743

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2012

	Equity attributable to owners of the Company												
	Non-redeemable convertible						Equity component of Accumulated					Non-controlling interests	Total
	Share capital	preference share	Share premium	Capital redemption reserve	Merger reserve	Special capital reserve	Translation reserve	convertible bonds	profits/(losses)	Sub-total			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
At 1 April 2011	477,403	285,848	40,095	3,297	45,918	50,587	40,258	63,034	(400,688)	605,752	27	605,779	
Total comprehensive income (expenses) for the period	-	-	-	-	-	-	(6)	-	52,771	52,765	-	52,765	
Redemption of convertible bonds	-	-	11,498	-	-	-	-	(35,719)	-	(24,221)	-	(24,221)	
Conversion of non-redeemable preference shares (Note c)	285,848	(285,848)	(10,005)	-	-	10,005	-	-	-	-	-	-	
At 30 September 2011	763,251	-	41,588	3,297	45,918	60,592	40,252	27,315	(347,917)	634,296	27	634,323	

	Equity attributable to owners of the Company												
	Non-redeemable convertible						Equity component of Accumulated					Non-controlling interests	Total
	Share capital	preference share	Share premium	Capital redemption reserve	Merger reserve	Special capital reserve	Translation reserve	convertible bonds	profits/(losses)	Sub-total			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
At 1 April 2012	763,251	-	30,090	3,297	45,918	60,592	58,652	3,362	(526,175)	438,987	(5)	438,982	
Total comprehensive income (expenses) for the period	-	-	-	-	-	-	(2,515)	-	115,396	112,881	(1)	112,880	
Transfer to share premium (Note d)	(686,926)	-	686,926	-	-	-	-	-	-	-	-	-	
Elimination of accumulated losses as at 31 March 2011 against share premium (Note d)	-	-	(347,644)	-	-	-	-	-	347,644	-	-	-	
Issue of shares by placing for cash	14,559	-	1,344	-	-	-	-	-	-	15,903	-	15,903	
Redemption of convertible bonds	-	-	-	-	-	-	-	(3,362)	-	(3,362)	-	(3,362)	
At 30 September 2012	90,884	-	370,716	3,297	45,918	60,592	56,137	-	(63,135)	564,409	(6)	564,403	

Notes:

- (a) Pursuant to a special resolution passed at an extraordinary general meeting of the Company held on 22 July 2005 and the subsequent order of the High Court of Hong Kong (the “**High Court**”) made on 13 December 2005, the entire amount of HK\$207,130,000 then standing to the credit of the share premium accounts of the Company was cancelled in accordance with the provisions of the Hong Kong Companies Ordinance (the “**Capital Reduction**”).

Out of the credit arising from the Capital Reduction, HK\$146,538,000 was applied to eliminate the accumulated losses of the Company as at 31 March 2005 and the remaining balance of HK\$60,592,000 of the credit arising from the Capital Reduction was credited to a special capital reserve in the accounting records of the Company.

- (b) The merger reserve of the Group represents the difference between the nominal amount of the share capital of the subsidiaries at the date on which they were acquired by the Group and the nominal amount of the Company’s shares issued as consideration for the acquisition in March 2000 less the premium arising on repurchase of shares and the amount transferred to the capital redemption reserve.
- (c) On 23 October 2009, the Company issued approximately 2,938,478,000 non-redeemable convertible preference shares with a par value of HK\$0.2 each, as a partial consideration for the acquisition of an intangible asset through acquisition of a subsidiary. The fair value of the convertible preference shares as at 23 October 2009 amounted to approximately HK\$567,126,000, representing HK\$0.193 per convertible preference share. The discount of approximately HK\$20,570,000, which represented the difference between the fair value of the non-redeemable convertible preference shares as of 23 October 2009 and the par value, is charged to the special capital reserve of the Company.
- (d) Pursuant to a special resolution passed at an extraordinary general meeting of the Company held on 12 December 2011 and the subsequent order of the High Court made on 29 May 2012, the amount of approximately HK\$686,926,000 then standing to the credit of the share capital accounts of the Company was reduced in accordance with the provisions of the Hong Kong Companies Ordinance (the “**Capital Reorganisation**”) with effect from 26 June 2012. Out of the credit arising from the Capital Reorganisation, approximately HK\$347,644,000 was applied to eliminate the accumulated losses of the Company as at 31 March 2011 and the remaining balance of approximately HK\$339,282,000 of the credit arising from the Capital Reorganisation was credited to share premium in the accounting records of the Company.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 September 2012

1. GENERAL INFORMATION

The Company and its subsidiaries (collectively referred to as the “**Group**”) were principally engaged in provision of management service, investment in financial and investment products. The address of its registered office and principle place of business is Unit 2306B-07, 23/F, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.

2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of GEM Listing Rules and with Hong Kong Accounting Standard (“**HKAS**”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”).

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at revalued amounts or fair values, as appropriate.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 September 2012 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2012 except as described below.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“**HKFRSS**”)

In the current interim period, the Group has applied, for the first time, the following amendments to the HKFRSs issued by the HKICPA.

HKFRS 1 (Amendments)	Severe hyperinflation and removal of fixed dates for first-time adopters
HKFRS 7 (Amendments)	Disclosure – Transfers of financial assets
HKAS 12 (Amendments)	Deferred tax: Recovery of underlying asset

The application of the above amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS") (Continued)

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective:

HKFRSs (Amendments)	Annual improvements to HKFRSs 2009-2011 cycle ²
HKFRS 1 (Amendments)	Government loans ²
HKFRS 7 and HKFRS 9 (Amendments)	Mandatory effective date of HKFRS 9 and transition disclosures ⁴
HKFRS 7 (Amendments)	Disclosures – Offsetting financial assets and financial liabilities ²
HKFRS 9	Financial instruments ⁴
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments)	Consolidated financial statements, joint arrangements and disclosure of interests in other entities – Transition Guidance ²
HKFRS 10	Consolidated financial statements ²
HKFRS 11	Joint arrangements ²
HKFRS 12	Disclosure of Interests in other entities ²
HKFRS 13	Fair value measurement ²
HKAS 1 (Amendments)	Presentation of items of other comprehensive income ¹
HKAS 19 (as revised in 2011)	Employee benefits ²
HKAS 27 (as revised in 2011)	Separate financial statement ²
HKAS 28 (as revised in 2011)	Investments in associates and joint venture ²
HKAS 32 (Amendments)	Offsetting financial assets and financial liabilities ³
HK (IFRIC) – Int 20	Stripping costs in the production phase of a surface mine ²

¹ Effective for annual periods beginning on or after 1 July 2012

² Effective for annual periods beginning on or after 1 January 2013

³ Effective for annual periods beginning on or after 1 January 2014

⁴ Effective for annual periods beginning on or after 1 January 2015

The directors of the Group anticipate that the application for the other new and revised Standard, Amendments and Interpretations will have no material impact on the financial performance and financial position of the Group.

4. TURNOVER

An analysis of the Group's revenue for the period is as follows:

	Six months ended 30 September	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Management fee income	163,058	119,448
Dividends from listed available-for-sale investments	—	—
	163,058	119,448

5. SEGMENT INFORMATION

The Group's operating segments, based on information reported to the board of directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focus on types of goods or services delivered or provided.

In order to better evaluate the nature and financial effects of the business activities on which the Group engages and the economic environments in which the Group operates, the Group has changed the composition of the reportable segments in the current year. The business segment for the comparable period has been restated accordingly.

Before the change of composition of the reportable segments, the operating segments operated by the Group was (a) Provision of management services; (b) investment in financial and investment products and (c) manufacture and trading of ceramic sewage materials.

After the change of composition of business segments, the Group's operating and reportable segments under HKFRS8 are as follows:

- (a) Provision of management services
- (b) Investment in financial and investment products

Segment of the manufacturing and trading of ceramic sewage materials was discontinued in the prior period. The segment information reported below does not include any amounts for these discontinued operations, which are described in more detail in note 8.

The followings is an analysis of the Group's revenue and results from continuing operations by reportable segment.

5. SEGMENT INFORMATION *(Continued)*

Segment Revenue and Results

For the six months ended 30 September 2012

	Provision of management service		Investment in financial and investment products		Total	
	2012 (Unaudited)	2011 (Unaudited)	2012 (Unaudited)	2011 (Unaudited)	2012 (Unaudited)	2011 (Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
SEGMENT TURNOVER						
External sales	163,058	119,448	–	–	163,058	119,448
Investment income	–	–	–	–	–	–
	<u>163,058</u>	<u>119,448</u>	<u>–</u>	<u>–</u>	<u>163,058</u>	<u>119,448</u>
SEGMENT RESULTS						
	<u>146,705</u>	<u>68,525</u>	<u>–</u>	<u>–</u>	<u>146,705</u>	<u>68,525</u>
Interest income					–	10
Net unallocated income (expenses)					(4,102)	(8,131)
Finance costs					(144)	(5,653)
Profit before taxation					142,459	54,751
Income tax expenses					(40,765)	(29,862)
Profit for the period (continuing operations)					<u>101,694</u>	<u>24,889</u>

5. SEGMENT INFORMATION (Continued)

Segment Assets and Liabilities

At 30 September 2012

	Provision of management service		Investment in financial and investment products		Total	
	30 September 2012 (Unaudited) HK\$'000	31 March 2012 (Audited) HK\$'000	30 September 2012 (Unaudited) HK\$'000	31 March 2012 (Audited) HK\$'000	30 September 2012 (Unaudited) HK\$'000	31 March 2012 (Audited) HK\$'000
ASSETS						
Segment assets	637,842	491,025	–	–	637,842	491,025
Assets relating to ceramic sewage materials operation (now discontinued)					–	3,100
Unallocated segment assets					21,102	9,748
Total assets					658,944	503,873
LIABILITIES						
Segment liabilities	15,636	7,054	–	–	15,636	7,054
Liabilities relating to ceramic sewage materials operation (now discontinued)					–	10,439
Unallocated segment liabilities					78,905	47,398
Total liabilities					94,541	64,891

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to reportable segments, other than bank balances and cash and assets which are not able to be allocated into reportable segments.
- all liabilities are allocated to reportable segments, other than borrowings, income tax payables, convertible bonds and certain other payables which are not able to be allocated into reportable segments.

5. SEGMENT INFORMATION *(Continued)*

Geographical segments

The Group's revenue from external customer and information about its non-current assets by geographical location of the assets are disclosed below:

	Revenue from external customer Six months ended 30 September		Non-current assets Six months ended 30 September	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
The PRC	163,058	119,448	386,297	563,533
Hong Kong	–	–	697	363
	163,058	119,448	386,994	563,896

Information about major customer

Revenue from customer of the corresponding period contributing over 100% of the total revenue of the Group is as follows:

	Six months ended 30 September	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Customer A	163,058	119,448

6. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging (crediting):

	Six months ended 30 September	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Staff costs		
Salaries and allowances	1,537	2,345
Net contributions to retirement benefits schemes	25	–
	1,562	2,345
Operating lease charges in respect of rented premises	1,532	468
Amortisation of intangible assets	16,353	22,581
Depreciation expense	190	64
Interest income from bank deposits	–	(10)

7. TAXATION

	For the three months ended 30 September		For the six months ended 30 September	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Current Tax				
The PRC	40,765	29,862	40,765	29,862
Taxation Attributable to the Group	40,765	29,862	40,765	29,862

Hong Kong Profits Tax has not been provided as the Group had no estimated assessable profit in Hong Kong for the period.

Tax arising in the PRC is calculated at the rates of tax prevailing in the PRC.

8. PROFIT (LOSS) FOR THE PERIOD FROM DISCONTINUED OPERATIONS

Disposal of ceramic sewage materials manufacturing and trading operations

On 9 December 2011, the board of directors announced that the Group entered into the sale and purchase agreement to dispose of 100% equity interest of Plenty One Limited and its subsidiary ("Plenty One"), which engaged in ceramic sewage materials manufacturing and trading operations, to an independent third party at the consideration of HK\$6,500,000. The disposal was completed on 14 August 2012, on which date the Group lost control of Plenty One. Due to the disposal of 100% equity interest in Plenty One, the comparative figures have been re-presented to classify the Plenty One as a discontinued operation for the six months ended 30 September 2011.

- (a) The profit (loss) up to the date of disposal from the discontinued operations included in the condensed consolidated statement of comprehensive income are analysed as follows:

	Six months ended 30 September	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000 (restated)
Revenue	–	–
Cost of sales	–	–
Administrative expenses	(4)	(142)
Finance cost	–	(318)
Loss for the period	(4)	(460)
Gain on disposal of subsidiaries (Note 8(c))	13,705	–
Profit for the period from discontinued operations	13,701	(460)

8. PROFIT (LOSS) FOR THE PERIOD FROM DISCONTINUED OPERATIONS (Continued)

(b) Cash flows from discontinued operations:

	Six months ended	
	30 September	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
		(restated)
Net cash outflows from operating activities	–	–
Net cash outflows from investing activities	–	–
Net cash outflows from financing activities	–	–
	–	–

(c) The net liabilities of Plenty One at the date of disposal were as follows:

	HK\$'000
Net liabilities disposed of:	
Property, plant and equipment	392
Prepaid lease payments	2,708
Trade and other payables	(3,024)
Income tax payable	(392)
Amount due to a non-controlling shareholder of a subsidiary	(2,726)
Borrowings	(4,297)
Translation reserve released	134
	(7,205)
Gain on disposal of subsidiaries	13,705
Total consideration	<u>6,500</u>
Satisfied by:	
Cash	<u>6,500</u>
Net Cash arising on disposal:	
Total cash consideration received	6,500
Bank balances and cash disposed of	–
	<u>6,500</u>

9. EARNINGS PER SHARE

From continuing and discontinued operations

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

	For the six months ended 30 September	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Earnings		
Profit for the period attributable to owners of the Company for the purpose of basic and diluted earnings per share	115,396	24,429

	For the six months ended 30 September	
	2012 (Unaudited) '000	2011 (Unaudited) '000 (restated)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	795,249	582,835
Effect of dilutive potential ordinary shares:		
Convertible bonds	–	65,000
Weighted average number of ordinary shares for the purpose of diluted earnings per share	795,249	647,835

9. EARNINGS PER SHARE (Continued)

From continuing operations

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

	Six months ended 30 September	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000 (restated)
Profit figures are calculated as follows:		
Profit for the period attributable to owners of the Company	115,396	24,429
Add: (Profit) loss for the period from discontinued operations	(13,701)	460
	101,695	24,889

The denominators used are the same as those detailed above for basic earnings per share.

From discontinued operations

Basic earnings per share for the discontinued operations is HK1.72 cents per share (for six months ended 30 September 2011: basic loss per share is HK0.08 cents).

The diluted earnings per share for the discontinued operations is not presented because there were no potential dilutive shares during the six months ended 30 September 2012. The diluted loss per share is same as the basic loss per share for the discontinued operations as the dilutive potential ordinary shares were anti-dilutive for six months ended 30 September 2011.

10. INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 September 2012 (2011: Nil).

11. INTANGIBLE ASSET

	Exclusive right HK\$'000
COST	
At 1 April 2011	966,992
Exchange realignment	<u>29,716</u>
At 31 March 2012, 1 April 2012 and 30 September 2012	<u>996,708</u>
ACCUMULATED AMORTISATION AND IMPAIRMENT	
At 1 April 2011	360,903
Provided for the year	43,806
Impairment loss recognised in the year	175,799
Exchange realignment	<u>13,550</u>
At 31 March 2012 and 1 April 2012	594,058
Provided for the period	<u>16,353</u>
At 30 September 2012	<u>610,411</u>
CARRYING VALUES	
At 30 September 2012 (<i>unaudited</i>)	<u>386,297</u>
At 31 March 2012 (<i>audited</i>)	<u>402,650</u>

The intangible asset is amortised on straight-line basis over its estimated useful lives of 15 years.

The recoverable amount of the intangible asset has been determined on the basis of value-in-use calculation with reference to a valuation performed by Grant Sherman Appraisal Limited, an independent qualified valuer not connected to the Group. The value-in-use calculations use cash flow projections of 12.5 years (year ended 31 March 2012: 13 years) and based on financial budgets approved by management of the Company covering a 3-year period, and a discount rate of 17.41% (year ended 31 March 2012: 18.98%). Cash flow projections during the budget period for the intangible asset is based on the budgeted sales and expected realisable profit during the budget period and the similar quality of new investments during the budget period. Expected cash inflows/outflows, which include budgeted sales of listed securities, cost of acquiring new investment portfolio and other direct costs have been determined based on past performance and management's expectations for the market development.

For the six months ended 30 September 2012, the directors of the Company are of the opinion that the recoverable amount exceeds its carrying value and accordingly no write-down on carrying value of intangible asset is considered necessary.

12. TRADE AND OTHER RECEIVABLES

	30 September 2012 (Unaudited) HK\$'000	31 March 2012 (Audited) HK\$'000
Trade receivables	251,545	88,375
Prepayments, deposits and other receivables	1,036	1,059
	252,581	89,434

The Group allows an average credit period of 180 days given to the customers.

An aged analysis of trade receivables at the balance sheet dates, based on invoice date was as follows:

	30 September 2012 (Unaudited) HK\$'000	31 March 2012 (Audited) HK\$'000
Current to 180 days	171,640	–
181 to 365 days	–	79,782
Over 365 days	79,905	8,593
	251,545	88,375

13. CONVERTIBLE BONDS

On 23 October 2009, the Company issued 5-year zero-coupon convertible bonds (the "CB") in the aggregate principal amount of HK\$200,000,000 to Rightshine Holdings Limited as a partial consideration for the acquisition of an intangible asset through the acquisition of a subsidiary. The CB holders are entitled to convert the bonds into ordinary shares of the Company at any time from the date of issue in multiples of HK\$1,000,000 at the conversion price of HK\$0.2 (subject to adjustment) per conversion share as subsequently adjusted to HK\$0.04 per share as a result of the share subdivision effective on 2 November 2009. No conversion shall be made, if immediately upon such conversion, the bondholder and its parties acting in concert in aggregate hold more than 9.9% of the issued share capital of the Company from time to time; and/or the public float of the Company's shares is less than 15% of the total issued shares of the Company. The Company has an early redemption option to redeem in whole or in part at par before the maturity date by serving seven days' prior written notice. Any amount of the bonds remains outstanding on the maturity date shall be redeemed at its then outstanding amount. The fair value of such early redemption option at the date of issue and subsequent reporting period was insignificant.

13. CONVERTIBLE BONDS (Continued)

During the six months ended 30 September 2012, the Company had redeemed the entire amount of the CB. The CB contains two components, liability and equity elements. The equity element is presented in equity heading "equity component of convertible bonds". The effective interest rate of the liability component is 11.52% per annum.

The movement of CB is as follows:

	Liability component	Equity component	Total
	HK\$'000	HK\$'000	HK\$'000
At 1 April 2011	101,819	63,034	164,853
Imputed interest charged for the year	7,073	–	7,073
Redemption during the year	<u>(102,808)</u>	<u>(59,672)</u>	<u>(162,480)</u>
At 31 March 2012 and 1 April 2012	6,084	3,362	9,446
Imputed interest charged for the period	144	–	144
Redemption during the period	<u>(6,228)</u>	<u>(3,362)</u>	<u>(9,590)</u>
At 30 September 2012	<u>–</u>	<u>–</u>	<u>–</u>

14. SHARE CAPITAL

		Number of ordinary shares of HK\$0.04 each '000	Number of ordinary shares of HK\$0.004 each '000	Number of ordinary shares of HK\$0.1 each '000	Amount HK\$'000
	<i>Notes</i>				
Authorised					
At 1 April 2011, 31 March 2012 and 1 April 2012					
Capital reduction	<i>(a)</i>	30,000,000	–	–	1,200,000
Share consolidation	<i>(a)</i>	(30,000,000)	30,000,000	–	(1,080,000)
Increase in authorised capital	<i>(b)</i>	–	(30,000,000)	1,200,000	–
		–	–	8,800,000	880,000
30 September 2012					
		–	–	10,000,000	1,000,000
At 1 April 2011					
Conversion of convertible preference shares		11,935,080	–	–	477,403
		7,146,195	–	–	285,848
At 31 March 2012 and 1 April 2012					
Capital reduction	<i>(a)</i>	19,081,275	–	–	763,251
Share consolidation	<i>(a)</i>	(19,081,275)	19,081,275	–	(686,926)
Issue of shares by placing for cash	<i>(c)</i>	–	(19,081,275)	763,251	–
		–	–	145,590	14,559
At 30 September 2012					
		–	–	908,841	90,884

- (a) On 26 June 2012, the special resolution for capital reduction, the confirming order and the minutes in relation thereto were submitted for registration with the Companies Registrar and on 29 June 2012, the Companies Registrar confirmed to the Company that the abovementioned documents were duly registered with effect from 26 June 2012. As a result, the effective date of the capital reduction falls on 26 June 2012 and the par value of each issued share of HK\$0.04 to be reduced to HK\$0.004. The credit arising from such reduction was applied towards cancelling the accumulated deficit of approximately HK\$347,644,000 of the Company with the balance of approximately HK\$339,282,000 to be transferred to the share premium account of the Company. After the capital reduction becoming effective from 26 June 2012, every twenty-five issued shares of HK\$0.004 each was consolidated into one consolidated share of HK\$0.10 each with effect from 12 July 2012.
- (b) On 12 July 2012, the authorised share capital had been increased by 8,800,000,000 new shares of HK\$0.1 each.
- (c) On 21 August 2012, the Company had issued and allotted 145,590,000 new shares of HK\$0.10 each at HK\$0.11 per share by placing.

15. OPERATING LEASE COMMITMENTS

As lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under operating leases in respect of land and buildings which fall due as follows:

	30 September 2012 (Unaudited) HK\$'000	31 March 2012 (Audited) HK\$'000
Within one year	2,910	3,064
In the second to fifth year inclusive	–	1,378
	2,910	4,442

Operating lease payments in respect of land and buildings represent rentals payable by the Group for its office premises. Leases are fixed for an average of two years.

16. RELATED PARTY DISCLOSURES

During the period, the Group had no transactions with a related party.

Compensation of key management personnel

The emoluments of directors of the Company and the key management were as follows:

	For the six months ended 30 September	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Salaries and allowance	1,129	2,310
Retirement benefits scheme contributions	14	–
	1,143	2,310

17. COMPARATIVES FIGURES

Certain comparative figures have been reclassified to conform to current period's presentation.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY OF ITS ASSOCIATED CORPORATIONS

As at 30 September 2012, neither of the Directors nor the Chief Executive of the Company had interests or short positions in the shares of the Company, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") (Chapter 571, Laws of Hong Kong)) which (i) are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (ii) were recorded in the register required to be kept under Section 352 of the SFO, or (iii) have to be notified to the Company and the Stock Exchange pursuant to the required standards of dealing by directors as referred to in Rule 5.46 to 5.67 of the GEM Listing Rules.

Long positions in ordinary shares of HK\$0.1 each of the Company (the "Shares")

No long positions of Directors in the shares of the Company were recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules.

Long positions in the shares of associated corporation

No long positions of the Directors in the shares of the associated corporation of the Company were recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules.

Long positions in underlying shares – share options granted by the Company

No long positions of Directors in the underlying shares of the equity derivatives of the Company and its associated corporations were recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules.

Long positions in debentures

No long positions of Directors in the debentures of the Company and its associated corporations were recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules.

Short positions in the shares of the Company

No short positions of Directors in the shares of the Company and its associated corporations were recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules.

Short positions in underlying shares

No short positions of Directors in the underlying shares of the equity derivatives of the Company and its associated corporations were recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules.

Short positions in debentures

No short positions of Directors in the debentures of the Company and its associated corporations were recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules.

At 30 September 2012, none of the Directors had any interests in any shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules.

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

At 30 September 2012, the following persons (other than the interests disclosed above in respect of certain Directors or Chief Executives of the Company) had no interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

Long positions in the shares of HK\$0.1 each of the Company

Name of Substantial Shareholder	Capacity/Nature of interest	Number of ordinary shares in the Company held	Percentage of issued share capital of the Company
Bonus Raider Investments Limited	Beneficial owner	96,244,700	10.59%
China Water Industry Group Limited	Interest of a controlled corporation	96,244,700 (Note)	10.59%

Note: These shares are registered in the name of Bonus Raider Investments Limited, which is a wholly-owned subsidiary of China Water Industry Group Limited.

Long positions in underlying shares

No long positions of other persons and substantial shareholders in the underlying shares of equity derivatives of the Company were recorded in the register.

Short positions in the shares of the Company

No short positions of other persons and substantial shareholders in the shares of the Company were recorded in the register.

Short positions in underlying shares

No short positions of other persons and substantial shareholders in the underlying shares of equity derivatives of the Company were recorded in the register.

Save as disclosed above, as at 30 September 2012, the Directors and Chief Executive of the Company are not aware of any other persons who had interests or short positions in the shares or underlying shares of the Company which were interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or any persons (not being a Director) have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions in Divisions 2 and 3 of Part XV of the SFO.

AUDIT COMMITTEE

The Company has an audit committee ("**Audit Committee**") which was established with written terms of reference in compliance with the GEM Listing Rules. As at the date of this report, the Audit Committee had three members comprising the three independent non-executive Directors, namely Mr. Lam Tze Chung (Chairman of the Audit Committee), Mr. Wu Ka Ho Stanley and Mr. Yue Laiqun. The primary duties of the Audit Committee are to review the financial information of the Group and supervise the financial reporting process and internal control procedures of the Group. The Group's interim results for the six months ended 30 September 2012 have been reviewed by the members of the Audit Committee, who are of the opinion that such statements comply with the applicable accounting standards, the Stock Exchange listing requirements and legal requirements and that adequate disclosures have been made.

COMPLIANCE WITH THE REQUIRED STANDARD OF DEALINGS IN SECURITIES TRANSACTIONS BY DIRECTORS

During the period under review, the Group adopted the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding directors' securities transactions in securities of the Company. Upon the Group's specific enquiry, each Director confirmed that during the period ended 30 September 2012 he or she had fully complied with the required standard of dealings and there was no event of non-compliance.

COMPETING INTERESTS

During the period under review, none of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) had an interest in a business that competed with the Group or might compete with the business of the Group.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

During the year under review, the Company has applied the principles and complied with all the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 to the GEM Listing Rules except for the deviation below:

Appointment term of non-executive Directors

Under code provision A.4.1 of the Code, non-executive Directors should be appointed for a specific term, subject to re-election while all Directors should be subject to retirement by rotation at least once every three years. All independent non-executive Directors were not appointed for a specific term but they are subject to retirement by rotation and re-election at annual general meetings of the Company in line with the Articles. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the period under review, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

By Order of the Board
Chinese Energy Holdings Limited
Yau Yan Ming Raymond
Chairman

Hong Kong, 13 November 2012

The Directors as at the date of this report are as follows:

Executive Directors

Mr. Yau Yan Ming Raymond
Mr. Zha Jian Ping
Mr. Ji Peng
Mr. Wong Ka Chun Carson

Non-executive Director

Ms. Qi Yue

Independent non-executive Directors

Mr. Lam Tze Chung
Mr. Wu Ka Ho Stanley
Mr. Yue Laiqun