



INTERIM REPORT 2011/12



CETH

China Environmental Technology Holdings Limited

中國環保科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 646

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CORPORATE INFORMATION

Board of Directors

Executive Directors:

Mr. Xu Zhong Ping (*Chairman*)
 Mr. Zhang Fang Hong (*Chief Executive Officer*)
 Ms. Song Xuan
 Mr. Xu Xiao Yang

Non-executive Directors:

Mr. Ge Ze Min
 Mr. Fong Sai Mo
 Mr. Xin Luo Lin

Independent non-executive Directors:

Mr. Wong Kam Wah
 Dr. Zhu Nan Wen
 Prof. Zuo Jiane

Audit Committee

Mr. Wong Kam Wah (*Chairman*)
 Dr. Zhu Nan Wen
 Prof. Zuo Jiane

Remuneration Committee

Mr. Wong Kam Wah (*Chairman*)
 Dr. Zhu Nan Wen
 Prof. Zuo Jiane

Nomination Committee

Mr. Wong Kam Wah (*Chairman*)
 Dr. Zhu Nan Wen
 Prof. Zuo Jiane

Company Secretary

Mr. Li Wang Hing, Nelson

Auditor

CCIF CPA Limited
 34/F, The Lee Gardens
 33 Hysan Avenue
 Causeway Bay
 Hong Kong

Legal Advisers

Chiu & Partners
 Conyers Dill & Pearman

Principal Share Registrar and Transfer Office

Butterfield Fulcrum Group
 (Cayman) Limited
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 Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

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Listing Information

The Stock Exchange of Hong Kong Limited
 Stock Code: 00646

Principal Bankers

DBS Bank (Hong Kong) Limited
 Hang Seng Bank Limited

Company Website

www.cethl.com

The board (“Board”) of directors (“Directors”) of China Environmental Technology Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 September 2011 together with the comparative figures for the corresponding period in 2010.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2011

		Six months ended 30 September	
	<i>Note</i>	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Turnover	3	110,496	89,233
Cost of sales		(85,087)	(70,171)
Gross profit		25,409	19,062
Other revenue	4	685	556
Other net (loss) income	4	(1,680)	28,702
Distribution costs		(4,920)	(3,918)
Administrative expenses		(27,804)	(20,168)
(Loss) profit from operations		(8,310)	24,234
Finance costs	5a	(1,267)	(115)
(Loss) profit before taxation	5	(9,577)	24,119
Income tax credit (expense)	6	1,186	(1,108)
(Loss) profit for the period		(8,391)	23,011

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

For the six months ended 30 September 2011

	Six months ended 30 September	
<i>Note</i>	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Other comprehensive income:		
Exchange differences on translation of financial statements of PRC subsidiaries	<u>5,242</u>	<u>3,311</u>
Other comprehensive income for the period	<u>5,242</u>	<u>3,311</u>
Total comprehensive (loss) income for the period	<u><u>(3,149)</u></u>	<u><u>26,322</u></u>
(Loss) profit for the period attributable to:		
Owners of the Company	<u>(8,066)</u>	23,011
Non-controlling interests	<u>(325)</u>	<u>—</u>
	<u><u>(8,391)</u></u>	<u><u>23,011</u></u>
Total comprehensive (loss) income for the period attributable to:		
Owners of the Company	<u>(2,852)</u>	26,322
Non-controlling interests	<u>(297)</u>	<u>—</u>
	<u><u>(3,149)</u></u>	<u><u>26,322</u></u>
(Loss) earnings per share	8	
Basic (HK cents)	<u><u>(0.33)</u></u>	<u><u>1.03</u></u>

The notes on pages 9 to 20 form part of this interim report.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2011

	Note	At 30 September 2011 (Unaudited) HK\$'000	At 31 March 2011 (Audited) HK\$'000
Non-current assets			
Interest in leasehold land held for own use under operating leases		432	426
Property, plant and equipment		21,659	21,896
Investment properties		52,199	51,800
Operating concessions		186,809	117,759
Intangible assets		58,566	61,179
		<u>319,665</u>	<u>253,060</u>
Current assets			
Trading securities		8,554	16,888
Inventories		15,029	11,624
Trade and other receivables	10	55,595	70,912
Current taxation recoverable		341	341
Pledged bank deposits	11	—	202
Cash and cash equivalents	11	72,629	104,965
		<u>152,148</u>	<u>204,932</u>
Assets classified as held for sale	17	5,701	—
		<u>157,849</u>	<u>204,932</u>
Current liabilities			
Trade and other payables	12	97,251	83,437
Bank loans and overdrafts		22,287	22,175
Current taxation		1,014	1,171
Provision for warranty		1,625	1,465
		<u>122,177</u>	<u>108,248</u>
Liabilities associated with assets classified as held for sale	17	3,744	—
		<u>125,921</u>	<u>108,248</u>
Net current assets		<u>31,928</u>	<u>96,684</u>
Total assets less current liabilities		<u>351,593</u>	<u>349,744</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION*(CONTINUED)*

At 30 September 2011

	Note	At 30 September 2011 (Unaudited) HK\$'000	At 31 March 2011 (Audited) HK\$'000
Non-current liabilities			
Bank loans and overdrafts		23,912	23,324
Deferred tax liabilities		35,839	36,254
Provision for warranty		46	514
		<u>59,797</u>	<u>60,092</u>
		-----	-----
Net assets		<u>291,796</u>	<u>289,652</u>
Capital and reserves			
Share capital	13	60,775	60,775
Reserves		<u>230,128</u>	<u>228,877</u>
Equity attributable to owners of the Company		<u>290,903</u>	289,652
Non-controlling interests		<u>893</u>	—
Total equity		<u>291,796</u>	<u>289,652</u>

The notes on pages 9 to 20 form part of this interim report.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2011

	Share capital	Share premium	Tranche II consideration shares	Share option reserve	Contributed surplus	Exchange reserve	Revaluation reserve-land and buildings	Other reserves	Retained earnings	Total equity attributable to owners of the Company	Non-controlling interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 April 2010 (audited)	55,825	58,833	—	—	(180)	2,741	14,366	2,570	60,949	195,104	—	195,104
Profit for the period	—	—	—	—	—	—	—	—	23,011	23,011	—	23,011
Other comprehensive income	—	—	—	—	—	3,311	—	—	—	3,311	—	3,311
Acquisition of subsidiaries	937	14,063	—	—	—	—	—	—	—	15,000	—	15,000
Equity-settled share-based transactions	—	—	—	80	—	—	—	—	—	80	—	80
Balance at 30 September 2010 (unaudited)	56,762	72,896	—	80	(180)	6,052	14,366	2,570	83,960	236,506	—	236,506
Balance at 1 April 2011 (audited)	60,775	137,637	27,274	8,752	(180)	8,869	19,898	10,824	15,803	289,652	—	289,652
Profit for the period	—	—	—	—	—	—	—	—	(8,066)	(8,066)	(325)	(8,391)
Other comprehensive income	—	—	—	—	—	5,214	—	—	—	5,214	28	5,242
Capital contribution from non-controlling shareholders of a subsidiary	—	—	—	—	—	—	—	—	—	—	1,190	1,190
Equity-settled share-based transactions	—	—	—	4,103	—	—	—	—	—	4,103	—	4,103
Balance at 30 September 2011 (unaudited)	60,775	137,637	27,274	12,855	(180)	14,083	19,898	10,824	7,737	290,903	893	291,796

The notes on pages 9 to 20 form part of this interim report.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2011

		Six months ended 30 September	
	<i>Note</i>	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Cash from operations		35,898	2,348
Tax paid		(198)	(1,362)
Net cash from operating activities		35,700	986
Net cash used in investing activities		(69,385)	(36,021)
Net cash from financing activities		880	3,795
Decrease in cash and cash equivalents		(32,805)	(31,240)
Cash and cash equivalents at beginning of period	<i>11</i>	104,965	102,079
Effect on foreign exchange rate changes		1,956	(295)
Cash and cash equivalents at end of period	<i>11</i>	74,116	70,544
Analysis of the balances of cash and cash equivalents			
Cash and cash equivalents		72,629	70,544
Cash and cash equivalents included in assets classified as held for sale		1,487	—
		74,116	70,544

The notes on pages 9 to 20 form part of this interim report.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and the Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The condensed financial statements should be read in conjunction with the Annual Report of the Group for the year ended 31 March 2011.

2. Summary of principal accounting policies

The accounting policies adopted in the condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2011. In the current interim period, the Group has applied for the first time, a number of new and revised standards, amendments and interpretations (“New or revised HKFRSs”) issued by HKICPA which are effective for the financial year beginning on 1 April 2011.

HKFRS 1 Amendment	Amendment to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards — Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters
HKAS 24 (Revised)	Related Party Disclosures
HK(IFRIC) — Int 14 Amendments	Amendments to HK(IFRIC) — Int 14 Prepayments of a Minimum Funding Requirement
HK(IFRIC) — Int 19	Extinguishing Financial Liabilities with Equity Instruments
Improvements to HKFRSs 2010	Amendments to a number of HKFRSs

The adoption of the above accounting policies had no material effect on the results and financial position for the current or prior accounting periods which have been prepared and presented. Accordingly, no prior period adjustment has been recognised.

3. Segment reporting

The Group manages its business by division which is organised from the product perspective.

Operating segments are identified on the basis of internal reports which provides information about components of the Group. These information are reported to and reviewed by the board of directors, being the chief operating decision-makers ("CODM") for the purposes of resource allocation and performance assessment. The Group has presented the following six reportable segments, no reportable segment has been aggregated to form following reporting segments:

1. Sewage treatment and construction services
This segment engages in the provision of sewage treatment plants construction and operation services on a Build-Operate-Transfer ("BOT") basis.
2. Sewage treatment equipment trading
This segment engages in the trading of sewage treatment facilities and machinery and provision for related services.
3. Aviation, metro and railway equipment
This segment derives its revenue from sales of train and track maintenance equipment and airport ground support equipment.
4. Vehicles and spare parts
This segment derives its revenue from sales of coaches, trucks and spare parts of bus.
5. Dredging equipment
This segment derives its revenue from sales of components of dredging equipment.
6. Provision of engineering services
This segment provides warranty and maintenance services and after-sales services.

3. Segment reporting (CONTINUED)

(a) Segment results

	Segment revenue Six months ended 30 September		Segment profit (loss) Six months ended 30 September	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Sewage treatment and construction services	77,385	7,795	15,534	43,447
Sewage treatment equipment trading	15,297	—	384	—
Aviation, metro and railway equipment	—	62,991	(4,393)	1,971
Vehicles and spare parts	5,800	9,728	183	(650)
Dredging equipment	7,565	3,342	466	(310)
Provision of engineering services	4,449	5,377	1,565	1,842
	<u>110,496</u>	<u>89,233</u>	<u>13,739</u>	<u>46,300</u>

(b) Reconciliation of segment profit to (loss) profit before taxation is as follows:

	Six months ended 30 September	
	2011 HK\$'000	2010 HK\$'000
Segment profit	13,739	46,300
Unallocated items		
Other revenue and net (loss) income	(1,792)	(11,009)
Depreciation and amortisation	(812)	(745)
Finance costs	(1,267)	—
Unallocated head office and corporate expenses	(19,445)	(10,427)
(Loss) profit before taxation	<u>(9,577)</u>	<u>24,119</u>

4. Other revenue and other net (loss) income

	Six months ended 30 September	
	2011 HK\$'000	2010 HK\$'000
Other revenue		
Interest income on bank deposits	153	47
Total interest income on financial assets not at fair value through profit and loss	153	47
Gross rental income from investment properties	528	493
Others	4	16
	<u>685</u>	<u>556</u>
Other net (loss) income		
Net exchange gain	254	400
Net loss on disposal of property, plant and equipment	—	(256)
Net (loss) gain on sale of trading securities	(993)	186
Net unrealised loss on trading securities carried at fair value	(1,333)	(11,325)
Gain from a bargain purchase	—	39,676
Reversal of impairment loss on trade receivables	311	—
Others	81	21
	<u>(1,680)</u>	<u>28,702</u>

5. (Loss) profit before taxation

(Loss) profit before taxation is arrived at after charging (crediting):

	Six months ended 30 September	
	2011 HK\$'000	2010 HK\$'000
(a) Finance costs:		
Interest on bank advances and bank borrowings repayable within five years	1,704	59
Interest on bank advances and bank borrowings repayable after five years	—	56
Inputed interest on consideration shares to be issued	1,157	—
	2,861	115
Less: Amount attributable to operating concessions	(1,594)	—
	1,267	115
(b) Staff costs (including Director's remuneration):		
Salaries, wages and other benefits	12,658	9,795
Contribution to defined contribution retirement plans	295	582
Equity settled share-based payments	4,103	80
	17,056	10,457
(c) Other items:		
Amortisation of land lease premium	5	12
Amortisation of intangible assets	5,341	1,284
Cost of inventories	18,298	67,896
Depreciation		
— owned assets	1,474	1,558
Operating lease charges in respect of properties	2,562	1,752
Rentals from investment properties less direct outgoings of \$52,000 (six months ended 30 September 2010: \$18,000)	(476)	(475)

6. Income tax (credit) expense

	Six months ended 30 September	
	2011 HK\$'000	2010 HK\$'000
Current tax — Hong Kong Profits Tax		
Tax for the period	—	105
Current tax — PRC	59	1,003
Deferred tax	(1,245)	—
	(1,186)	1,108

The provision for Hong Kong Profits Tax for the period ended 30 September 2011 is calculated at 16.5%. PRC taxation is charged at the appropriate current rate of taxation ruling in the PRC.

7. Interim dividend

The Directors do not recommend any interim dividend for the six months ended 30 September 2011 (2010: Nil).

8. (Loss) earnings per share

The calculation of the basic (loss) earnings per share attributable to the owners of the Company is based on the following data:

	Six months ended 30 September	
	2011 HK\$'000	2010 HK\$'000
(Loss) profit for the period attributable to the owners of the Company and (loss) earnings for the purpose of basic (loss) earnings per share	(8,066)	23,011
	Number of shares	
	'000	'000
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	2,430,981	2,233,197

The Company has no potential dilutive ordinary shares outstanding during both periods.

9. Movements in investment properties, property, plant and equipment, and operating concessions

The Directors are of the opinion that the carrying value of the Group's investment properties as at 30 September 2011 is not materially different from the fair value of the investment properties. Accordingly, no valuation movement has been recognised in respect of the Group's investment properties during the period.

During the period, the Group spent HK\$1,162,000 (six months ended 30 September 2010: HK\$670,000) on property, plant and equipment.

During the period, the Group spent HK\$67,356,000 (six months ended 30 September 2010: HK\$Nil) on operating concessions.

10. Trade and other receivables

	30 September 2011 HK\$'000	31 March 2011 HK\$'000
Trade receivables	28,348	39,020
Retentions receivables	4,178	10,222
Other receivables	9,274	6,261
Amount due from a jointly controlled entity	1,326	50
	<hr/>	<hr/>
Loan and receivables	43,126	55,553
	<hr/>	<hr/>
Prepayments and deposits	12,469	15,359
	<hr/>	<hr/>
	55,595	70,912
	<hr/> <hr/>	<hr/> <hr/>

10. Trade and other receivables (CONTINUED)

All of the trade and other receivables apart from certain retentions receivable are expected to be recovered within one year.

Retentions receivable are amounts which are not paid until the satisfaction of conditions specified in the contract for the payment of such amounts.

The following is an ageing analysis of the trade receivables (net of impairment losses for bad and doubtful debts) at the end of the reporting period.

	30 September 2011 HK\$'000	31 March 2011 HK\$'000
Current	9,084	8,783
1 to 3 months overdue	16,114	7,185
More than 3 months overdue but less than 12 months overdue	2,859	22,864
More than 12 months overdue	291	188
	28,348	39,020

Trade receivables are due in accordance with contract terms or within 2 months from the date of billing.

11. Pledged bank deposits and cash and cash equivalents

	30 September 2011 HK\$'000	31 March 2011 HK\$'000
Pledged bank deposits	—	202
Cash and bank balances	72,629	104,965
	72,629	105,167
Less: Pledged bank deposits	—	(202)
Cash and cash equivalents in the consolidated statement of financial position	72,629	104,965
Bank overdrafts	—	—
Cash and cash equivalents in the consolidated statement of cash flows	72,629	104,965

12. Trade and other payables

	30 September 2011 HK\$'000	31 March 2011 HK\$'000
Trade and bills payables	57,467	52,201
Other payables and accruals	26,040	24,775
Amount due to a related company	—	711
	<hr/>	<hr/>
Financial liabilities measured at amortised cost	83,507	77,687
Sales deposits received	13,744	5,750
	<hr/>	<hr/>
	97,251	83,437
	<hr/> <hr/>	<hr/> <hr/>

All trade and other payables apart from certain retention payables are expected to be settled within one year.

The following is an ageing analysis of the trade and bills payables at the end of the reporting period.

	30 September 2011 HK\$'000	31 March 2011 HK\$'000
Due within 1 month or on demand	42,343	45,637
Due after 1 month but within 3 months	51	588
Due after 3 months but within 6 months	—	—
Due after 6 months but within 1 year	—	—
Due after 1 year	406	—
	<hr/>	<hr/>
	42,800	46,225
Retention payables	14,667	5,976
	<hr/>	<hr/>
	57,467	52,201
	<hr/> <hr/>	<hr/> <hr/>

13. Share capital

	No. of shares '000	Amount HK\$'000
Authorised:		
Ordinary shares of HK\$0.025 each	<u>8,000,000</u>	<u>200,000</u>
Issued and fully paid:		
Ordinary shares At 1 April 2011 and 30 September 2011	<u>2,430,981</u>	<u>60,775</u>

14. Operating lease commitments

(a) As lessee

The Group leases a number of properties held under operating leases. The leases typically run for an initial period of one to three years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

At 30 September 2011, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	30 September 2011 HK\$'000	31 March 2011 HK\$'000
Within 1 year	3,046	4,721
After 1 year but within 5 years	<u>1,842</u>	<u>2,202</u>
	<u>4,888</u>	<u>6,923</u>

(b) As lessor

The Group leases out investment properties under operating lease. The lease typically run for an initial period of one to three years, with an option to renew the lease after that date at which time all terms are renegotiated.

At 30 September 2011, the total future minimum lease receipts under non-cancellable operating leases are as follows:

	30 September 2011 HK\$'000	31 March 2011 HK\$'000
Within 1 year	317	457
After 1 year but within 5 years	<u>—</u>	<u>—</u>
	<u>317</u>	<u>457</u>

15. Capital commitments

	30 September 2011 HK\$'000	31 March 2011 HK\$'000
Capital expenditure in respect of Upgrade and construction of sewage treatment plants under a service concession arrangement on a BOT basis:		
— contracted but not provided for	50,680	88,030
— authorised but not contracted for	69,911	68,192
	120,591	156,222
Purchase of equipment and motor vehicle		
— contracted but not provided for	—	828
	120,591	157,050

16. Contingent liabilities

At 30 September 2011, the Group had undertaken to guarantee certain banking facilities granted to certain subsidiaries to the extent of HK\$9,599,000 (31 March 2011: HK\$14,206,000).

17. Assets and liabilities classified as held for sale

On 21 September 2011, the Group entered into a disposal agreement and a debt settlement agreement with a third party. Pursuant to the agreements, the Group agreed to dispose of 100% equity interests in Yardway Advance Power Equipment (Beijing) Co., Ltd. ("YAPE") (a wholly-owned subsidiary of the Group) and certain indebtedness owing from YAPE to the Group at the consideration of RMB1,308,000 (equivalent to approximately HK\$1,586,000). The transaction has not been completed at the end of the reporting date.

18. Establishment of a wholly foreign owned enterprise (WFOE)

On 11 August 2011, (i) Zhi Qin Limited (“Zhi Qin”) (a wholly-owned subsidiary of the Group incorporated in the British Virgin Islands), (ii) Beijing Capital (Hong Kong) Limited (“Beijing Capital HK”) (a wholly-owned subsidiary of Beijing Capital Co., Ltd. (北京首都創股份有限公司), shares of which are listed on the Shanghai Stock Exchange (stock code: 600008), together with its subsidiaries as “Beijing Capital Group”) and Yat Hua Limited (“Yat Hua”) (a wholly-owned subsidiary of Beijing Capital HK), and (iii) Beijing Capital Environmental Construction Company Limited (“BCEC Cayman”) (a special purpose vehicle incorporated in the Cayman Islands whose issued share capital is held by Zhi Qin and Yat Hua in equal share) entered into a shareholders’ agreement (“Shareholders Agreement”) where it had been agreed that the Group and Beijing Capital Group will each advance a loan up to HK\$5 million to BCEC Cayman, which will arrange for Beijing Capital Environmental Construction (Hong Kong) Company Limited (an indirect wholly-owned subsidiary of BCEC Cayman) establishing WFOE (with its name 北京首強創新環保科技有限公司, being a wholly foreign owned enterprise incorporated in the PRC). WFOE’s proposed principal business includes the investment and operation of urban environmental projects, the sales and provision of special purpose environmental equipments, technology promotion and consultation services relating to the Group’s magnetic isolation water treatment equipment (磁分離移動水處理設備) and highly-magnetic soil water treatment equipment (磁高泥水處理設備).

Following the acquisition of Beijing Jingrui Kemai Water Purification Technology Co., Ltd., the Group has been holding additional know-hows and technology in sewage and water purification. It provides a strong basis for the Group to further develop its water treatment business in the PRC.

The Directors believe that with the combined resources and competitive advantages of Beijing Capital Group and the characteristics of technology level of the Group, and under the market demand for and development trend of water treatment industry in the PRC, it is expected that WFOE is capable of integrating the resources and technologies of both parties and maximizing their abilities and advantages through utilising the business network of Beijing Capital Group to develop the business of WFOE in the PRC. It is expected that WFOE, through the application of the Group’s water treatment technology, can meet the market demand for urban and rural sewage treatment, water treatment for natural water such as lakes and rivers, urban landscape water treatment, upgrading and reconstruction of urban sewage treatment into emergency water and high-phosphates industrial wastewater treatment in a number of provinces and regions in the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS

Results and Business Review

During the six months ended 30 September 2011, the Group recorded a turnover of HK\$110,496,000, representing an increase of 23.8% as compared to HK\$89,233,000 for the same period last year. Gross profit for the period increased to HK\$25,409,000 (six months ended 2010: HK\$19,062,000). The result of the Group attributable to the owners of the Company for the period was a loss of HK\$8,066,000 (six months ended 30 September 2010: profit of HK\$23,011,000) mainly due to the effect of a gain from bargain purchase of HK\$39,676,000 included in the same period last year.

During the period under review, the turnover from sewage treatment business increased to HK\$92,682,000 from HK\$7,795,000, representing 83.9% (six months ended 30 September 2010: 8.7%) of Group turnover, delineating a growing trend and activities of the new business.

The operation of sewage treatment and construction services for the six months ended 30 September 2011 generated a profit of HK\$15,534,000, compared to HK\$3,771,000 for the corresponding period last year if excluding the gain from bargain purchase arising from a provisional fair value on the acquisition of waste water processing project. On the other hand, the result from aviation, metro and railway equipment division reported a loss of HK\$4,393,000 compared to a profit of HK\$1,971,000 for the corresponding period due to lack of new orders. The unrealised loss on trading securities of HK\$1,333,000 for the period showed a significant improvement compared to a loss of HK\$11,324,000 of last period under prudent monitoring of the investment portfolio amid the current volatility of the stock markets. The administrative expenses including share-based payments however increased slightly as a result of expansion of new business.

Future Outlook

Given that the Chinese Government continued to implement the environmental protection reform during the Twelfth Five-Year Plan period (2011 to 2015), more funds will be allocated to the wastewater treatment industry. The Group is confident that the wastewater treatment industry will be benefited from the related policy in the coming years. To strengthen our business fundamental and capture the huge demand in the environmental protection industry, the Group will leverage on its outstanding technology strength to grasp every opportunity and clinch more wastewater treatment projects in different provinces and municipalities.

Concurrently, the successful bidding of the project of the water quality maintenance of the Lake in 2011 Xi'an World Horticultural Expo Zone has marked the recognition of the Group's state-of-the-art technology and the comprehensive solutions for the wastewater treatment. With the track record of securing this kind of water quality maintenance project, it is believed that the Group's wastewater treatment business can be expanded by leaps and bounds.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Future Outlook (CONTINUED)

In addition, the Group will further enhance its technology strength by utilizing the magnetic isolation water treatment technology in different areas, especially in upgrading effluent standard of the wastewater treatment plants and improving the water quality of rivers and lakes. Our Hulu Island BOT wastewater treatment plant will be a showcase of our unique technology and integrated solutions in upgrading the wastewater treatment standard and quality in the near future.

Following the acquisition of Beijing Jingrui Kemai Water Purification Technology Co., Ltd. in January 2011, the Group has entered into an agreement with Beijing Capital (Hong Kong) Limited, a wholly-owned subsidiary of Beijing Capital Co., Ltd (“Beijing Capital”), shares of which are listed on the Shanghai Stock Exchange (stock code: 600008), to establish a wholly foreign owned enterprise company named Beijing Shuoqiang Innovative Environmental Technology Co., Ltd (“Beijing Shuoqiang”) in August 2011. Beijing Shuoqiang will engage in the investment and operation of urban environmental projects, the sales and provision of special purpose environmental equipments, technology promotion and consultation services relating to our magnetic isolation water treatment equipment. With our proprietary magnetic isolation water treatment technology and the extensive business network of Beijing Capital throughout the PRC, it is expected that Beijing Shuoqiang will further augment the Group’s business and become one of the pillars of its revenue stream.

Going forward, the Group is well positioned to the future growth and has a strong belief that our mobile magnetic isolation water treatment system will become the growth engine of the business development of the Group. This efficient, flexible, and reliable wastewater treatment system is well received by those industries or private sectors that required to purify the wastewater before flowing into the river and lakes, it can also help to improve the water quality of the ecological zone effectively and efficiently without large investment cost.

Employees and Remuneration Policy

The total number of employees of the Group as at 30 September 2011 was 195 (31 March 2011: 182). The Group remunerates its employees based on their performance, work experience and the prevailing market price. The remuneration packages include basic salary, double pay, commission, insurance and mandatory provident fund. The Group operates a share option scheme for the purpose of providing incentives and rewards to eligible Directors and employees of the Group to recognise their contribution to the success of the Group. The packages are reviewed annually by the management and the remuneration committee.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Liquidity

The Group continued to maintain a liquid position. As at 30 September 2011, cash and bank balances including pledged bank deposits of the Group were HK\$74,116,000 (31 March 2011: HK\$105,167,000).

As at 30 September 2011, the Group had total assets of HK\$477,514,000 (31 March 2011: HK\$457,992,000) and total liabilities of HK\$185,718,000 (31 March 2011: HK\$168,340,000). As at 30 September 2011, the current ratio was 1.25 (31 March 2011: 1.89).

The Group's bank borrowings amounted to HK\$46,199,000 (31 March 2011: HK\$45,499,000). The Group's borrowings, denominated in Hong Kong dollars and Renminbi, mainly comprise mortgage loans bearing floating interest rates and bank loan pledged on concession right bearing fixed interest rates. The Group's gearing ratio, based on the total borrowings to total assets, was 9.7% (31 March 2011: 9.9%).

Charge on Assets

As at 30 September 2011, the Group's investment property with carrying value amounting to HK\$25,800,000 (31 March 2011: HK\$25,800,000) and bank deposits of HK\$Nil (31 March 2011: HK\$202,000) were pledged with the banks to secure banking facilities granted to the Group.

ADDITIONAL INFORMATION

Directors' and Chief Executive's Interest in Shares and Underlying Shares

As at 30 September 2011, the Directors and chief executive of the Company had the following interests or short positions in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register of Directors' and chief executives' interests required to be kept under section 352 of the SFO, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in the Listing Rules (the "Model Code"), to be notified to the Company and the Stock Exchange were as follows:

Long position

(i) Interests in issued shares of the Company

Name of Director	Capacity	No. of ordinary shares interested	% of the Company's issued share capital
Xu Zhong Ping (<i>note</i>)	Interest held by a controlled corporation	1,200,000,000	49.36%
	Beneficial owner	<u>9,606,886</u>	<u>0.40%</u>
		1,209,606,886	49.76%
Xu Xiao Yang	Beneficial owner	20,000,000	0.82%

Note:

These 1,200,000,000 shares were held under the name of Gentle International Holdings Limited ("Gentle"). Mr. Xu Zhong Ping owns 60% of the issued share capital of Gentle. Mr. Xu was therefore deemed to be interested in the said 1,200,000,000 shares held by Gentle under Part XV of the SFO.

ADDITIONAL INFORMATION (CONTINUED)

Directors' and Chief Executive's Interest in Shares and Underlying Shares (CONTINUED)

Long position (CONTINUED)

(ii) *Interests in underlying shares of the Company*

Name of Director	Capacity	No. of share option held	% of the Company's issued share capital
Xu Zhong Ping	Beneficial owner	2,200,000	0.09%
Zhang Fang Hong	Beneficial owner	22,000,000	0.90%
Xu Xiao Yang	Beneficial owner	3,000,000	0.12%

Apart from the foregoing, as at 30 September 2011, none of the Directors, the chief executive or any of their spouses or children under eighteen years of age has interests in the shares, underlying shares and debentures of the Company, or any of its associated corporations, 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 the Model Code.

Share Options

2010 Share Option Scheme

The Company has, in accordance with Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), adopted a new share option scheme (the "2010 Share Option Scheme"), as approved by the shareholders of the Company at the extraordinary general meeting held on 10 September 2010. The Directors are given a general mandate to invite eligible participants to take up options at the subscription price as prescribed under the 2010 Share Option Scheme to subscribe for shares of the Company. The purpose of the share option scheme is to enable the Group to grant options to the eligible participants including employees, executive and non-executive Directors, suppliers and customers and shareholders of any members of the Group and any persons or entities that provided research, development or other technical support to the Group or any other group or classes of participants determined by the Directors as incentive or rewards for their contribution to the Group. The share option scheme has become valid and effective for a period of ten years ending on 9 September 2020.

ADDITIONAL INFORMATION (CONTINUED)

Share Options (CONTINUED)

2010 Share Option Scheme (CONTINUED)

The exercise price of options is the highest of the nominal value of the shares, the closing price of the shares on the Stock Exchange on the date of offer and the average closing price of the shares on the Stock Exchange for the five business days immediately preceding the date of offer. The options vest in four equal instalments with the first installment vesting from the date of grant. The second, third and fourth instalments vest from one, two and three years after the date of grant respectively. The options are exercisable after the vesting date but within a period of five years from the date of grant. Each option gives the holder the right to subscribe for one ordinary share in the Company.

The total number of securities available for issue under the share option scheme as at 30 September 2011 was 64,500,000 shares which represents 2.65% of the issued share capital of the Company as at 30 September 2011. The number of securities issued and to be issued upon exercise of the options granted to each participant in any 12-month period is limited to 1% of the Company's ordinary shares in issue.

Details of the share options granted under the 2010 Share Option Scheme and a summary of the movements during the period are as follows:

Name	Date of grant	Exercisable period	Exercise price HK\$	Number of share options				Balance at 30.9.2011
				Balance at 1.4.2011	Granted during the period	Exercised during the period	Lapsed during the period	
Directors								
Xu Zhong Ping	17 September 2010	17 September 2010 to 16 September 2020	0.46	2,200,000	—	—	—	2,200,000
Zhang Fang Hong	17 September 2010	17 September 2010 to 16 September 2020	0.46	22,000,000	—	—	—	22,000,000
Xu Xiao Yang	17 September 2010	17 September 2010 to 16 September 2020	0.46	3,000,000	—	—	—	3,000,000
Sub-total				<u>27,200,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>27,200,000</u>
Others								
Employees and other qualified participants	17 September 2010	17 September 2010 to 16 September 2020	0.46	37,300,000	—	—	—	37,300,000
Sub-total				<u>37,300,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>37,300,000</u>
Total				<u>64,500,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>64,500,000</u>

Apart from the foregoing, at no time during the period was the Company, or any of its holding company, subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

ADDITIONAL INFORMATION (CONTINUED)

Substantial Shareholders' Interests in Shares

As at 30 September 2011, the following persons, other than a Director or chief executive of the Company, had interest or short positions in the shares and underlying shares in the Company as recorded in the register required to be kept under section 336 of the SFO:

	Capacity	No. of ordinary shares of the Company interested	% of the Company's issued share capital
Gentle International Holdings Limited	Beneficial owner	1,200,000,000	49.36%
Eternity Venture Limited	Beneficial owner	336,624,000	13.85%
Li Hanying (note 1)	Interest held by a controlled corporation	336,624,000	13.85%
Chung Cheong Group Limited	Beneficial owner	172,304,000	7.09%
Mo Huiqin (note 2)	Interest held by a controlled corporation	172,304,000	7.09%

Note:

- (1) Li Hanying is the sole shareholder of Eternity Venture Limited and was therefore deemed to be interested in the said 336,624,000 shares held by Eternity Venture Limited under Part XV of the SFO.
- (2) Mo Huiqin is the sole shareholder of Chung Cheong Group Limited and was therefore deemed to be interested in the said 172,304,000 shares held by Chung Cheong Group Limited under Part XV of the SFO.

Save as disclosed above, as at 30 September 2011, so far as is known to the Directors, no person (other than the Directors whose interests are set out in the section headed "Directors' and Chief Executive's Interests in Shares and Underlying Shares" above) had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

ADDITIONAL INFORMATION (CONTINUED)

Purchase, Redemption or Sale of the Company's Listed Securities

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

Corporate Governance

The Company recognises the importance of good corporate governance to the Company's healthy growth and has devoted considerable efforts to identifying and formulating corporate governance practices appropriate to the Company's needs.

The Company has complied with the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Listing Rules, throughout the six months ended 30 September 2011 except for the code provision in respect of A.4.1. Details of the deviations from code provision A.4.1 of CG Code in respect of service term of the non-executive Directors respectively are set out in the section "Corporate Governance Report" on page 27 of the 2011 Annual Report.

Model Code for Securities Transactions

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of conduct in respect of Directors' dealings in the Company's securities. Specific enquiry has been made of all the Directors who have confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 September 2011.

Audit Committee

The Company's audit committee is composed of three independent non-executive Directors of the Company. The audit committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the unaudited interim financial statements for the six months ended 30 September 2011.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed public float under the Listing Rules as at the date of this interim report.

Acknowledgement

Last but not least, the Board would like to take this opportunity to thank the management and staff for their dedication and hard working during the period. The Board would also like to thank all the Group's customers and shareholders for their continued support.

By order of the Board

Xu Zhong Ping

Chairman

Hong Kong, 23 November 2011