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)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2014

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 June 2014 together with the comparative figures for the corresponding period in 2013.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2014 — Unaudited

		Six months ended 30 June	
		2014	2013
		(Unaudited)	(Unaudited)
	Note	***HK$'000***	*HK$'000*
Turnover	*3*	**52,934**	29,296
Cost of sales		**(45,014)**	(20,748)
Gross profit		**7,920**	8,548
Other income	*4*	**302**	714
Other gain, net	*4*	**1,937**	584
Share of loss of an associate		**—**	(468)
Distribution costs		**(1,238)**	(1,942)
Administrative expenses		**(30,704)**	(27,577)
Loss from operations		**(21,783)**	(20,141)
Finance costs	*5a*	**(8,735)**	(13)
Loss before taxation	*5*	**(30,518)**	(20,154)
Income tax credit	*6*	**511**	1,241
Loss for the period		**(30,007)**	(18,913)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME *(continued)*

For the six months ended 30 June 2014 — Unaudited

	Note	Six months ended 30 June **2014** (Unaudited) *HK$'000*	2013 (Unaudited) *HK$'000*
Loss for the period		**(30,007)**	(18,913)
Other comprehensive (loss)/income:			
Exchange differences on translating of foreign operations		**(6,450)**	503
Other reserves transferred		—	777
Total other comprehensive (loss)/income for the period		**(6,450)**	1,280
Total comprehensive loss for the period		**(36,457)**	(17,633)
Loss for the period attributable to:			
Owners of the Company		**(29,026)**	(18,764)
Non-controlling interests		**(981)**	(149)
		(30,007)	(18,913)
Total comprehensive loss for the period attributable to:			
Owners of the Company		**(35,478)**	(17,484)
Non-controlling interests		**(979)**	(149)
		(36,457)	(17,633)
Loss per share			
Basic *(HK cents)*	*8*	**(1.16)**	(0.75)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2014 — Unaudited

	Note	At 30 June 2014 (Unaudited) *HK$'000*	At 31 December 2013 (Audited) *HK$'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**25,917**	28,107
Operating concessions		**245,886**	236,908
Intangible assets		**10,085**	11,207
Goodwill		**1,919**	1,919
Interests in an associate		**—**	—
Interests in joint ventures		**—**	—
		283,807	278,141
Current assets			
Financial assets at fair value through profit or loss		**440**	440
Inventories		**19,111**	15,594
Trade and other receivables	*10*	**35,233**	21,767
Cash and cash equivalents	*11*	**6,038**	42,529
Pledged bank deposits	*11*	**—**	1,182
		60,822	81,512
Total assets		**344,629**	359,653
EQUITY			
Equity attributable to owners of the Company			
Share capital	*12*	**62,508**	62,508
Reserves		**27,160**	62,638
		89,668	125,146
Non-controlling interests		**461**	(197)
Total Equity		**90,129**	124,949

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

At 30 June 2014 — Unaudited

	Note	At 30 June 2014 (Unaudited) *HK$'000*	At 31 December 2013 (Audited) *HK$'000*
LIABILITIES			
Non-current liabilities			
Bank loans	*13*	**45,360**	54,610
Entrusted loan		**63,000**	63,500
Deferred tax liabilities		**19,572**	20,224
		127,932	138,334
Current liabilities			
Trade and other payables	*14*	**62,271**	56,291
Bank loans	*13*	**63,593**	39,370
Current income tax payable		**704**	709
		126,568	96,370
Total liabilities		**254,500**	234,704
Total equity and liabilities		**344,629**	359,653
Net current liabilities		**(65,746)**	(14,858)
Total assets less current liabilities		**218,061**	263,283

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial information has been prepared in accordance with the Hong Kong Accounting Standards ("HKAS") 34 "Interim Financial Reporting" and other relevant HKAS and Interpretations and Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements set out in Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The condensed financial statements should be read in conjunction with the Annual Report of the Group for the year ended 31 December 2013.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

The accounting policies adopted are consistent with those set out in the audited consolidated financial statements for the year ended 31 December 2013, except for the adoption of the following amendments issued by the HKICPA which became effective for the Group's financial year beginning on 1 January 2014.

HKFRS 10, HKFRS 12 and HKAS 27 (2011)	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 — *Investment Entities*
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities*
HKAS 36 Amendments	Recoverable Amount Disclosures for Non-Financial Assets
HKAS 39 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement — Novation of Derivatives and Continuation of Hedge Accounting*
HK(IFRIC) — Int 21	*Levies*

The adoption of these amendments has not had any significant effect on the accounting policies or results and financial position of the Group.

The following new standards, new interpretations and amendments to standards and interpretations have been issued but not effective and have not been early adopted by the Group:

HKFRS 9	*Financial Instruments*[1]
HKFRS 14	*Regulatory Deferral Accounts*[4]
Amendments to HKFRS 9, HKFRS 7 and HKAS 39	*Hedge Accounting*[1]
HKFRSs (Amendments)	Annual Improvements 2010–2012 Cycle[3]
HKFRSs (Amendments)	Annual Improvements 2011–2013 Cycle[2]

[1] Effective dates to be determined
[2] Effective for annual periods beginning on or after 1 July 2014
[3] Effective for annual periods beginning, or transactions occurring, on or after 1 July 2014
[4] Effective for annual periods beginning on or after 1 January 2016

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application but is not yet in a position to state whether these new and revised HKFRSs would have a significant impact on the Group's results of operations and financial position.

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, being the chief operating decision-makers ("CODM") for the purposes of resource allocation and performance assessment. The Group has presented the following two reportable segments, no reportable segment has been aggregated to form following reporting segments:

1. Wastewater treatment and construction services

   This segment engages in the provision of wastewater treatment plants construction and operation services on a Build-Operate-Transfer ("BOT") basis.

2. Wastewater treatment equipment trading

   This segment engages in the trading of wastewater treatment facilities and machinery and provision for related services.

(a) Segment results

An analysis of the Group's revenue and segment results is reported below:

	Segment revenue Six months ended		**Segment profit (loss) Six months ended**	
	30 June 2014	30 June 2013	**30 June 2014**	30 June 2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Continuing operations				
Wastewater treatment and construction services	**37,528**	22,195	**(5,342)**	(2,429)
Wastewater treatment equipment trading	**—**	7,101	**—**	(1,032)
Other	**15,406**	—	**17**	—
Total for operations	**52,934**	29,296	**(5,325)**	(3,461)

(b) Reconciliation of reportable segment results to loss before taxation

	Six months ended	
	30 June 2014	30 June 2013
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Reportable segment results	**(5,325)**	(3,461)
Other income and other gain, net	**2,239**	1,298
Depreciation and amortisation	**(477)**	(167)
Finance costs	**(8,735)**	(13)
Unallocated head office and corporate expenses	**(18,220)**	(17,811)
Consolidated loss before taxation attributable to operations	**(30,518)**	(20,154)

4. OTHER INCOME AND OTHER GAIN, NET

	Six months ended 30 June 2014 HK$'000 (Unaudited)	30 June 2013 HK$'000 (Unaudited)
Other income		
Interest income on bank deposits	**50**	44
Rental income	**—**	174
Others	**252**	496
	302	714
Other gain, net		
Net unrealised gain on financial assets at fair value through profit or loss	**—**	584
Gain on disposal of interest in subsidiaries	**1,937**	—
	1,937	584

5. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

	Six months ended 30 June 2014 HK$'000 (Unaudited)	30 June 2013 HK$'000 (Unaudited)
(a) Finance costs:		
Interest on bank borrowings wholly repayable within five years	**8,735**	4,289
Less: amount capitalised on qualifying assets	**—**	(4,276)
	8,735	13
(b) Other items:		
Amortisation of intangible assets	**1,084**	4,093
Amortisation of operating concessions	**4,747**	4,190
Depreciation of property, plant and equipment	**1,639**	745

6. INCOME TAX CREDIT

	Six months ended 30 June 2014 HK$'000 (Unaudited)	30 June 2013 HK$'000 (Unaudited)
Current tax — PRC corporate income tax	—	102
Deferred tax	**(511)**	(1,343)
	(511)	(1,241)

No provision for Hong Kong profits tax has been made as the Group has no assessable profits arising in Hong Kong for the period ended 30 June 2014. 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 June 2014 (30 June 2013: Nil).

8. LOSS PER SHARE

Basic

Basic loss per share is calculated by dividing the loss (earnings) attributable to the owners of the Company by the weighted average number of ordinary shares in issue during the period.

	Six months ended 30 June 2014 HK$'000	30 June 2013 HK$'000
Attributable to the owners of the Company		
From operations	**(29,026)**	(18,764)
	(29,026)	(18,764)
	Number of shares *'000*	*'000*
Weighted average number of ordinary shares in issue	**2,500,303**	2,500,303

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

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT, AND OPERATING CONCESSIONS

During the period, the Group spent HK$11,599,000 (six months ended 30 June 2013: HK$302,000) on property, plant and equipment.

During the period, the Group spent HK$15,590,000 (six months ended 30 June 2013: HK$5,181,000) on operating concessions.

The Group has pledged its operating concessions with carrying amount of HK$245,886,000 (31 December 2013 HK$236,908,000) to secure certain bank loans granted to the Group.

10. TRADE AND OTHER RECEIVABLES

	30 June 2014 HK$'000 (Unaudited)	31 December 2013 HK$'000 (audited)
Trade receivables	**16,502**	14,581
Other receivables	**10,815**	4,146
Trade deposits	**3,766**	1,233
Prepayments and deposits	**4,150**	1,807
	35,233	21,767

The ageing analysis of the trade receivables based on invoice date were as follows:

	30 June 2014 HK$'000 (Unaudited)	31 December 2013 HK$'000 (audited)
Within 2 months	**3,966**	4,992
More than 2 months but within 3 months	**1,732**	2,616
More than 3 months but less than 12 months	**5,476**	5,033
More than 12 months	**5,328**	1,940
	16,502	14,581

11. CASH AND CASH EQUIVALENTS

	30 June 2014 HK$'000 (Unaudited)	31 December 2013 HK$'000 (audited)
Cash and bank balances	**6,038**	42,529
Pledged bank deposits	**—**	1,182
	6,038	43,711

12. SHARE CAPITAL

	No. of shares '000	Amount HK$'000
Authorised:		
Ordinary shares of HK$0.025 each	8,000,000	200,000
Issued and fully paid:		
Ordinary shares		
At 31 December 2013 and 30 June 2014	2,500,303	62,508

13. BANK LOANS

	30 June 2014 *HK$'000* **(Unaudited)**	31 December 2013 *HK$'000* (audited)
Non-current liabilities		
Bank loans	**45,360**	54,610
Entrusted loan	**63,000**	63,500
Current liabilities		
Portion of bank loans due for repayment within 1 year	**63,593**	39,370
Total borrowings	**171,953**	157,480

14. TRADE AND OTHER PAYABLES

	30 June 2014 *HK$'000* **(Unaudited)**	31 December 2013 *HK$'000* (audited)
Trade payables	**15,530**	23,229
Retention money payable	**—**	66
Other payables and accruals	**32,077**	19,409
Sale deposits received	**14,664**	13,587
	62,271	56,291

The ageing analysis of the trade payables based on invoice date were as follows:

	30 June 2014 *HK$'000* **(Unaudited)**	31 December 2013 *HK$'000* (audited)
Due within 1 month or on demand	**1,010**	8,227
Due after 1 month but within 3 months	**177**	433
Due after 3 months	**14,343**	14,569
	15,530	23,229

15. OPERATING LEASE COMMITMENTS

As lessee

At 30 June 2014, the total future minimum lease payments under non-cancellable operating leases are as follows:

	30 June 2014	31 December 2013
	HK$'000	*HK$'000*
	(Unaudited)	(audited)
Within 1 year	**4,122**	4,000
After 1 year but within 5 years	**1,046**	586
	5,168	4,586

16. CAPITAL COMMITMENTS

At 30 June 2014, the Group had the following capital commitments:

	30 June 2014	31 December 2013
	HK$'000	*HK$'000*
	(Unaudited)	(audited)
Capital expenditure in respect of		
Upgrade and construction of wastewater treatment plants under a service concession arrangement on a BOT basis:		
— contracted but not provided for	**70,852**	63,565
Total commitments	**70,852**	63,565

MANAGEMENT DISCUSSION AND ANALYSIS

Results and Business Review

During the six months ended 30 June 2014, the Group recorded a turnover of HK$52,934,000, representing a increase of 80.69% as compared to HK$29,296,000 for the six months ended 30 June 2013. Gross profit for the period decrease to HK$7,920,000 (six months ended 30 June 2013: HK$8,548,000). The result of the Group attributable to the owners of the Company for the period was a loss of HK$29,026,000 (six months ended 30 June 2013: loss of HK$18,764,000) mainly due to a significant decrease in activities attributable to wastewater treatment equipment trading.

The operation of wastewater treatment and construction services for the six months ended 30 June 2014 recorded a loss of HK$5,342,000, compared to recorded a loss of HK$2,429,000 for the six months ended 30 June 2013.

No operation of wastewater treatment equipment trading recorded during the period (six months ended 30 June 2013: loss of HK$1,032,000).

During the period under review, the Group has expanded its environmental business to more service oriented scope, such as water quality maintenance in the rivers and lakes and the comprehensive manipulation project in the rural areas.

Outlook

From a macro point of view, the management believes the Chinese Government will continue to implement the environmental protection reform to achieve a higher level of ecological culture. China's economy is still in a growing stage, thus it will still more rooms for the development of the water environmental protection industry in future under this macroeconomic situation. Accordingly, the management has position its strategies and controls to core with these opportunities.

On 31 March 2014, the Company had announced a new business development. The management believes such diversification of business can enable the Group to broaden its income stream and is in the interests of the Company and its shareholders as a whole.

On 23 May 2014, the Company had announced a strategic co-operation framework agreement. Under the Framework Agreement, the parties shall cooperate to introduce the latest environmental protection technology and equipment in key areas including but not limited to (1) water treatment, (2) desalination; and (3) wastewater treatment and effluent reuse, from Israel to China. To achieve this goal, the parties agree to establish an environmental science and technology industrial park (環保科技產業園區) in Huizhou (惠州).

On 31 July 2014, the Company had announced a framework agreement relating to a proposed disposal. Through the proposed disposal, the Company will use this opportunity to consolidate its resources and, relying on the magnetic separation water treatment technology, develop its river-water treatment business* (河道水治理事業), and gradually shift towards investing in less asset-concentrated projects* (以輕資產投資為主的項目). At the same time the Company will also expand into emerging environmental business projects such as electronic waste dismantling.

On 14 August 2014, the Company had announced signing a strategic cooperation agreement and corporate development consulting services agreement with China General Consulting & Investment Co., Ltd. (the "CGCI").

Pursuant to the strategic cooperation agreement, CGCI shall commence specific cooperation with the Company on five major aspects including project planning and consulting services, strategic consulting services, project financing services, promotion services on technical products, and investment and consulting services on the expansion of environmental protection projects. Leveraging on the advantages of its platform, CGCI will provide the Company with comprehensive consulting services and technical promotion services on future investment projects, particularly in the Huizhou Marine Ecological Park* (惠州海洋生態園) project, river-water treatment in cities, restoration and construction of urban ecological environment, regional integrated environmental development, and energy-saving and environment-protecting products and technology.

Pursuant to the strategic cooperation agreement, the Company further entered into a binding corporate development strategy consulting services contract with CGCI. CGCI was engaged to provide consulting services such as corporate strategic diagnosis, strategic planning, and research on strategic tasks in different stages for the Company, so as to provide support with its rich knowledge for enhancing corporate strategic management and execution capabilities, as well as achieving a long-term, stable and sustainable corporate development. The Group will pay a service fee of RMB2,180,000 for the services under the binding services contract.

Entering into the binding services contract will provide sound support for the Company's business development focus as well as corporate management and control model in the coming years.

In future, the Company will not only strengthen the top-level management control mode, but also improve and optimize the foundation of management control systems. The Company will further strengthen its support and resources for those key functional areas through reform and model innovations. The Company will continue to upgrade the management of each business segment and steadily advance the development of business in-depth, thereby sustaining the steady and healthy growth in the Group's performance.

The management believes that in future, the Group will remain focus on its core business. To maintain the shareholders wealth is its main task.

Liquidity

The Group continued to maintain a liquid position. As at 30 June 2014, cash and bank balances of the Group were HK$6,038,000 (31 December 2013: HK$43,711,000).

As at 30 June 2014, the Group had total assets of HK$344,629,000 (31 December 2013: HK$359,653,000) and total liabilities of HK$254,500,000 (31 December 2013: HK$234,704,000). As at 30 June 2014, the current ratio was 0.48 (31 December 2013: 0.85).

The Group's bank borrowings amounted to HK$171,953,000 (31 December 2013: HK$157,480,000). The Group's borrowings, denominated in Renminbi, comprise bank loan pledged on the Group's concession right. The Group's gearing ratio, based on the total borrowings to total assets, was 49.90% (31 December 2013: 43.80%).

Charge on Assets

As at 30 June 2014, the Group's operating concessions with carrying value amounting to HK$245,886,000 (31 December 2013: HK$236,908,000) was pledged with the banks to secure banking facilities granted to the Group.

Foreign currency exposure

The Group had major investments, accounts receivable, bank balances, accounts payable and bank loans denominated in Renminbi, hence the Group had direct exposure to foreign exchange fluctuation. During the period under review, the Group did not use any foreign currency derivative product to hedge its exposure to currency risk. However, the management managed and monitored the exposure to ensure appropriate measures were implemented on a timely and effective manner.

Employees and Remuneration Policy

The total number of employees of the Group as at 30 June 2014 was 216 (31 December 2013: 174). 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.

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 June 2014.

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 June 2014.

Audit Committee

The Company's audit committee is composed of four 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 June 2014.

Auditor

Crowe Horwath (HK) CPA Limited ("Crowe Horwath") resigned as auditor of the Company with effect from 15 August 2014. RSM Nelson Wheeler ("RSM") was appointed as auditor of the Company on 27 August 2014 to fill the vacancy following the resignation of Crowe Horwath and will hold office until the conclusion of the next annual general meeting of the Company.

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 announcement.

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
CHINA ENVIRONMENTAL TECHNOLOGY HOLDINGS LIMITED
Xu Zhong Ping
Chairman

Hong Kong, 27 August 2014

As at the date of this announcement, the executive directors are Mr. Xu Zhong Ping, Mr. Pan Yutang, Mr. Zhang Fang Hong and Mr. Xu Xiao Yang; the non-executive directors are Mr. Cao Guoxian and Mr. Ma Tianfu; and the independent non-executive directors are Mr. Wong Kam Wah, Mr. Xin Luo Lin, Professor Zhu Nan Wen and Professor Zuo Jiane.