CTEG
中滔環保

CT ENVIRONMENTAL GROUP LIMITED
中滔環保集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1363)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the six months ended 30 June 2014 — unaudited
(Expressed in Hong Kong dollars)

		Six months ended 30 June	
		2014	2013
	Note	***HK$'000***	*HK$'000*
Turnover	*3*	**372,888**	221,064
Cost of sales		**(138,366)**	(83,975)
Gross profit		**234,522**	137,089
Other revenue	*4*	**23,515**	100
Administrative expenses		**(37,514)**	(18,298)
Other operating expenses		**(1,063)**	(2)
Profit from operations		**219,460**	118,889
Finance costs	*5(a)*	**(21,113)**	(15,599)
Share of profit of an associate		**3,681**	8,818
Profit before taxation	*5*	**202,028**	112,108
Income tax	*6*	**(22,008)**	(21,996)
Profit for the period		**180,020**	90,112
Attributable to:			
— Equity shareholders of the Company		**178,807**	89,970
— Non-controlling interests		**1,213**	142
Profit for the period		**180,020**	90,112
Earnings per share (HK$)	*7*		
Basic and diluted		**0.13**	0.09

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2014 — unaudited

(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
Profit for the period	**180,020**	90,112
Other comprehensive income for the period (after tax and reclassification adjustments)		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of entities not using Hong Kong Dollar ("HK$") as functional currency	**(8,357)**	6,879
Total comprehensive income for the period	**171,663**	96,991
Total comprehensive income attributable to:		
Equity shareholders of the Company	**170,480**	96,068
Non-controlling interests	**1,183**	923
Total comprehensive income for the period	**171,663**	96,991

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2014 — unaudited

(Expressed in Hong Kong dollars)

	Note	At 30 June 2014 *HK$'000*	At 31 December 2013 *HK$'000*
Non-current assets			
Property, plant and equipment		**1,405,241**	511,571
Lease prepayments		**143,733**	47,155
Intangible assets		**237,174**	50,039
Goodwill		**96,508**	12,194
Interests in an associate	*8(a)*	**—**	186,942
Gross amounts due from customers for contract work		**241,275**	246,350
Other receivables	*9*	**313,914**	83,783
Deferred tax assets		**3,726**	3,829
		2,441,571	1,141,863
Current assets			
Inventories		**9,825**	1,320
Trade and other receivables	*9*	**338,181**	280,694
Gross amounts due from customers for contract work		**21,866**	22,076
Deposits with a bank with original maturity date over three months		**50,392**	50,876
Cash and cash equivalents		**246,004**	394,723
		666,268	749,689
Current liabilities			
Trade and other payables	*10*	**554,841**	137,685
Bank loans	*11*	**275,166**	51,665
Current taxation		**17,238**	18,333
		847,245	207,683
Net current (liabilities)/assets		**(180,977)**	542,006
Total assets less current liabilities		**2,260,594**	1,683,869

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

at 30 June 2014 — unaudited

(Expressed in Hong Kong dollars)

	Note	At 30 June 2014 HK$'000	At 31 December 2013 HK$'000
Non-current liabilities			
Bank loans	*11*	**882,453**	500,533
Deferred tax liabilities		**81,722**	39,981
Deferred income		**14,906**	15,049
		979,081	555,563
Net assets		**1,281,513**	1,128,306
Equity			
Share capital		**138,208**	138,208
Reserves		**1,116,315**	987,297
Total equity attributable to equity shareholders of the Company		**1,254,523**	1,125,505
Non-controlling interests		**26,990**	2,801
Total equity		**1,281,513**	1,128,306

NOTES

(Expressed in Hong Kong dollars unless otherwise indicated)

1 BASIS OF PREPARATION

This interim financial information has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (HKAS) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (HKICPA).

The interim financial information has been prepared in accordance with the same accounting policies adopted in the 2013 annual financial statements, except for the newly adopted accounting policies and the accounting policies changes that are expected to be reflected in the 2014 annual financial statements. Details of the newly adopted accounting policies and the changes in accounting policies are set out in note 2.

The preparation of an interim financial information in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial information contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of CT Environmental Group Limited (the "Company") and its subsidiaries (together "the Group") since the 2013 annual financial statements. The interim financial information and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs).

The interim financial information is unaudited, but has been reviewed by the audit committee of the Company. It has also been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA.

The interim financial information has been prepared assuming the Group will continue as a going concern notwithstanding the net current liabilities position of the Group at 30 June 2014. The net current liabilities position of the Group recorded as at 30 June 2014 was mainly attributed by a prepayment of HK$250,000,000 by Mr. Gu Yao Kun for a conditional subscription of 60,000,000 new ordinary shares of the Company at a subscription price of HK$5.9 per share. The transaction was completed in August 2014 and the balance of prepayment was transferred from current liabilities to equity upon the completion of the shares subscription. Moreover, based on a detailed review of the working capital forecast of the Group for the period ending 30 June 2015, the directors are of the opinion that the Group will have necessary liquid funds to finance its working capital and capital expenditure requirements. Accordingly, the interim financial information has been prepared on a going concern basis. Should the Group be unable to operate as a going concern, adjustments may have to be made to write down the value of assets to their recoverable amounts and to provide for any further liabilities which might arise. The effect of any such adjustments has not been reflected in the interim financial information.

2 NEWLY ADOPTED ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES

(a) Newly adopted accounting policies

(i) *Subsidiaries and non-controlling interests*

In a business combination achieved in stages, the cost of combination is the aggregate of the consideration paid at the acquisition date and the fair value at the acquisition date of the acquirer's previously held interest in the acquiree. The Group remeasures its previously-held equity interest in the acquiree to its fair value at the acquisition date, with any difference between its fair value and its carrying amount being recognised in profit or loss for the current period.

(ii) *Intangible assets — service concession arrangements*

The Group recognises an intangible asset arising from a service concession arrangement when it has a right to charge for use of the concession infrastructure. An intangible asset received as consideration for providing construction or upgrade services in a service concession arrangement is measured at fair value on initial recognition with reference to the fair value of the services provided. Subsequent to initial recognition, the intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses.

The estimated useful life of an intangible asset in a service concession arrangement is the period from when the Group is able to charge the end user for the use of the infrastructure to the end of the concession period.

(b) Changes in accounting policies

The HKICPA has issued the following amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's interim financial report:

- Amendments to HKFRS 10, HKFRS 12 and HKAS 27, *Investment entities*

- Amendments to HKAS 32, *Offsetting financial assets and financial liabilities*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27, Investment entities

The amendments provide consolidation relief to those parents which qualify to be an investment entity as defined in the amended HKFRS 10. Investment entities are required to measure their subsidiaries at fair value through profit or loss. These amendments do not have an impact on the Group's interim financial report as the Company does not qualify to be an investment entity.

Amendments to HKAS 32, Offsetting financial assets and financial liabilities

The amendments to HKAS 32 clarify the offsetting criteria in HKAS 32. The amendments do not have an impact on the Group's interim financial report as they are consistent with the policies already adopted by the Group.

3 SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by business lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified five reportable segments. No operating segments have been aggregated to form the following reportable segments.

Supply of industrial water: this segment supplies industrial water.

Provision of wastewater treatment plants operation services: this segment operates wastewater treatment plants under Build-Own-Operate ("BOO") arrangement.

Wastewater project construction and operation services: this segment constructs and operates wastewater treatment plants in connection with Build-Operate-Transfer ("BOT") arrangement to generate turnover from construction and operation services as well as finance income.

Provision of heating services: this segment provides heating services.

Provision of sludge and solid waste treatment services: this segment provides sludge and solid waste treatment services under both BOO and BOT arrangements.

(a) Information about profit or loss, assets and liabilities

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the period is set out below.

	Supply of industrial water		Provision of wastewater treatment plants operation services		Wastewater project construction and operation services		Provision of heating services		Provision of sludge and solid waste treatment services		Total	
For the six months ended	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue from external customers	**24,518**	24,397	**176,615**	122,085	**35,162**	34,504	**40,377**	40,078	**96,216**	—	**372,888**	221,064
Reportable segment revenue	**24,518**	24,397	**176,615**	122,085	**35,162**	34,504	**40,377**	40,078	**96,216**	—	**372,888**	221,064
Reportable segment profit (adjusted EBITDA)	**18,188**	17,928	**150,250**	91,470	**27,076**	21,901	**3,716**	2,912	**60,964**	—	**260,194**	134,211
Share of profit of an associate	**—**	—	**3,681**	8,818	**—**	—	**—**	—	**—**	—	**3,681**	8,818
Finance costs	**(10,561)**	(10,550)	**(4,316)**	(1,132)	**(3,549)**	(3,917)	**—**	—	**(2,687)**	—	**(21,113)**	(15,599)
Finance income	**3**	3	**184**	16	**5**	5	**—**	—	**35**	—	**227**	24
Depreciation and amortisation for the period	**(1,621)**	(1,553)	**(13,807)**	(6,331)	**(559)**	(234)	**(770)**	(763)	**(12,389)**	—	**(29,146)**	(8,881)

The measure used for reporting segment profit is "adjusted EBITDA" i.e. "adjusted profit before interest, taxes, depreciation and amortisation". To arrive at adjusted EBITDA, the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as directors' remuneration and other head office or corporate administration costs.

(b) Reconciliations of reportable segment profit

	Six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
Reportable segment profit	**260,194**	134,211
Share of profit of an associate	**3,681**	8,818
Finance costs	**(21,113)**	(15,599)
Finance income	**227**	24
Depreciation and amortisation	**(29,146)**	(8,881)
Unallocated head office and corporate expenses	**(11,815)**	(6,465)
Consolidated profit before taxation	**202,028**	112,108

(c) Geographic information

Analysis of the Group's turnover and results by geographical market has not been presented as substantially all of the Group's revenue and assets are generated and located in the PRC.

(d) Seasonality of operations

There is a seasonal factor in the Group's revenue. In general, revenue in the second half of the year is higher than the first half.

4 OTHER REVENUE

	Six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
Government grants	**404**	46
Interest income	**227**	24
Gain on remeasurement of previously-held equity interests in an associate at fair value upon acquisition *(note)*	**22,871**	—
Others	**13**	30
	23,515	100

Note:

During the six months ended 30 June 2014, the Group further acquired 49% equity interests in Guangzhou Yinglong Wastewater Treatment Company Limited ("Yinglong"), a former associate of the Group with 46% equity interests (note 8(a)). Upon completion of the acquisition, Yinglong became a subsidiary of the Group. A gain on remeasurement of the 46% equity interests in Yinglong at fair value before the acquisition was recognised in profit or loss for the six months period ended 30 June 2014.

5 PROFIT BEFORE TAXATION

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

(a) Finance costs

	Six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
Interest on bank loans		
— wholly repayable within five years	**4,153**	1,138
— other bank loans	**20,143**	17,678
Sub-total	**24,296**	18,816
Less: interest expenses capitalised into properties under development	**(3,183)**	(3,217)
Total finance costs	**21,113**	15,599

(b) Other items

	Six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
Cost of inventories	**29,796**	16,961
Depreciation and amortisation	**29,146**	8,881
Operating lease charges	**2,354**	830

6 INCOME TAX

Income tax in the consolidated statement of profit or loss represents:

	Six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
Current tax — PRC income tax		
Provision for PRC income tax *(notes (i) and (ii))*	**14,827**	16,488
Provision for PRC dividend withholding tax *(note (iii))*	**—**	4,338
Deferred tax		
Origination and reversal of temporary differences	**7,181**	1,170
Income tax expenses	**22,008**	21,996

Notes:

(i) Pursuant to the relevant rules and regulations of the Cayman Islands and the British Virgin Islands ("BVI"), the Group is not subject to any income tax in the Cayman Islands and the BVI.

No provision was made for Hong Kong Profits Tax as the Group did not earn income subject to Hong Kong Profits Tax for the six months ended 30 June 2014 and 2013. The payments of dividends by Hong Kong companies are not subject to any Hong Kong withholding tax.

The statutory income tax rate for the PRC subsidiaries is 25%.

(ii) Some of the Group's PRC subsidiaries are entitled to the following PRC preferential tax treatments:

Guangzhou Xintao Wastewater Treatment Company Limited was approved as a High and New Technology Enterprise in November 2012, which entitled it to the preferential income tax rate of 15% from 2012 to 2014.

Guangzhou Haitao Environmental Protection Technology Company Limited ("Guangzhou Haitao"), Longmen Xilin Wastewater Treatment Company Limited ("Longmen Xilin"), Huaihua Tianyuan Wastewater Treatment Company Limited ("Huaihua Tianyuan") and Yinglong, being entities engaged in wastewater treatment, are each entitled to a tax holiday of 3-year exemption and 3-year 50% reduction on income derived from such activities starting from the year in which the project first generates operating revenue. Guangzhou Haitao (Phase I and Phase II of the Yonghe Haitao Wastewater Treatment Facility) and Huaihua Tianyuan are subject to income tax at 0% from 2010 to 2012, 12.5% from 2013 to 2015, and 25% from 2016 onwards; Longmen Xilin is subject to income tax at 0% from 2009 to 2011, 12.5% from 2012 to 2014, and 25% from 2015 onwards; and Yinglong is subject to income tax at 0% from 2012 to 2014, 12.5% from 2015 to 2017, and 25% from 2018 onwards. Guangzhou Haitao (Phase III of the Yonghe Haitao Wastewater Treatment Facility ("Haitao Phase III") and the Yonghe Haitao Sludge Treatment Facility ("Haitao Sludge")) is subject to income tax at 0% from 2013 to 2015, 12.5% from 2016 to 2018, and 25% from 2019 onwards.

Heyuan Solid Waste Centralised Disposal Centre Company Limited ("Heyuan Solid") and Qingyuan Lvyou Environmental Protection Technology Company Limited ("Lvyou"), being entities engaged in solid waste treatment, were entitled to income tax exemption for 2014.

(iii) PRC dividend withholding tax

According to the Corporate Income Tax Law of the PRC and its implementation rules, dividends receivable by non-PRC corporate residents from PRC enterprises are subject to withholding income tax at 10%, unless reduced by tax treaties or arrangements, for profits earned since 1 January 2008. Pursuant to the Sino-Hong Kong Double Tax Arrangement and the related regulations, a qualified Hong Kong tax resident will be liable for a reduced withholding tax rate of 5% on dividends from a PRC enterprise if the Hong Kong tax resident is the "beneficial owner" and holds 25% or more of the equity interest of the PRC enterprise. As all of the Group's PRC subsidiaries are directly or indirectly owned by a Hong Kong incorporated subsidiary which is the qualified Hong Kong tax resident, a rate of 5% is applicable to the calculation of the PRC dividend withholding tax.

7 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK$178,807,000 (six months ended 30 June 2013: HK$89,970,000) and the weighted average number of 1,382,082,000 ordinary shares (30 June 2013: 1,020,000,000 shares, after adjusting for the capitalisation issue in 2013) in issue during the interim period, calculated as follows:

	Six months ended 30 June	
	2014	2013
	'000	*'000*
Issued ordinary shares at 1 January	**1,382,082**	1,000
Effect of capitalisation issue	**—**	1,019,000
Weighted average number of ordinary shares at 30 June	**1,382,082**	1,020,000

(b) Diluted earnings per share

During the six months ended 30 June 2014 and 2013, there were no dilutive potential ordinary shares issued.

8 ACQUISITION OF SUBSIDIARIES

(a) Yinglong

The principal activities of Yinglong are provision of wastewater treatment services in the PRC. As at 31 December 2013, the Group held 46% equity interests in Yinglong and Yinglong was accounted for as an associate of the Group. During the six months ended 30 June 2014, the Group further acquired 49% equity interests in Yinglong for a consideration of RMB196,000,000 (equivalent to HK$246,921,000). Upon completion of the acquisition, the Group owned 95% equity interests in Yinglong and it became a subsidiary of the Company.

The following summaries the nature of consideration transferred, and the recognised amounts of assets acquired and liabilities assumed at the acquisition date:

	Carrying amount	Fair value adjustments	Recognised values on acquisition
	HK$'000	*HK$'000*	*HK$'000*
Property, plant and equipment	399,817	—	399,817
Intangible assets	—	74,328	74,328
Trade and other receivables	301,856	—	301,856
Cash and cash equivalents	25,993	—	25,993
Inventories	452	—	452
Trade and other payables	(78,851)	—	(78,851)
Bank loan	(246,900)	—	(246,900)
Deferred tax liabilities	—	(16,569)	(16,569)
Net identifiable assets	402,367	57,759	460,126
49% share of net identifiable assets			225,462
Total consideration			246,921
Goodwill			21,459

Analysis of cash flow:

Total consideration	246,921
Less: cash acquired	(25,993)
Net cash outflow for acquisition of Yinglong	220,928

(b) Lvyou

The principal activities of Lvyou are provision of sludge and solid waste treatment services. During the six months ended 30 June 2014, the Group acquired 100% of equity interests in Lvyou for a consideration of RMB125,000,000 (equivalent to HK$157,475,000).

The following summaries the nature of consideration transferred, and the recognised amounts of assets acquired and liabilities assumed at the acquisition date:

	Carrying amount	Fair value adjustments	Recognised values on acquisition
	HK$'000	*HK$'000*	*HK$'000*
Property, plant and equipment	424,363	—	424,363
Lease prepayments	18,853	21,801	40,654
Intangible assets	48,236	68,029	116,265
Cash and cash equivalents	11,710	—	11,710
Inventories	8,608	—	8,608
Trade and other receivables	33,160	—	33,160
Trade and other payables	(385,487)	—	(385,487)
Bank loans	(136,265)	—	(136,265)
Deferred tax liabilities	—	(18,453)	(18,453)
Net identifiable assets	23,178	71,377	94,555
Total consideration			157,475
Goodwill			62,920
Analysis of cash flow:			
Total consideration			157,475
Less: cash acquired			(11,710)
Net cash outflow for acquisition of Lvyou			145,765

Equity interests in Lvyou with carrying value of HK$52,507,000 were pledged to secure a Group's bank loan as at 30 June 2014 (see note 11).

9 TRADE AND OTHER RECEIVABLES

	At 30 June 2014 HK$'000	At 31 December 2013 HK$'000
Current		
Trade receivables	**248,157**	140,081
Prepayments and other receivables	**71,952**	75,786
Amounts due from related parties	**18,072**	64,827
	338,181	280,694
Non-current		
Prepayments for purchase of equipment	**313,914**	83,783
Total	**652,095**	364,477

As of the end of the reporting period, the ageing analysis of trade receivables, based on the date of revenue recognition, is as follows:

	At 30 June 2014 HK$'000	At 31 December 2013 HK$'000
Within 1 month	**115,827**	48,348
1 to 3 months	**72,802**	48,489
Over 3 months but within 1 year	**59,528**	43,244
	248,157	140,081

Trade receivables are usually due within 30 days from the date of billing. The Group does not hold any collateral over these balances.

10 TRADE AND OTHER PAYABLES

	At 30 June 2014 HK$'000	At 31 December 2013 HK$'000
Trade payables	**57,387**	25,536
Deposit received in connection to subscription of new ordinary shares of the Company *(note 1)*	**250,000**	—
Other payables and accruals	**179,803**	112,149
Amounts due to related parties	**67,651**	—
	554,841	137,685

(i) All of the trade payables, other payables and accruals are expected to be settled within 12 months or are repayable on demand.

(ii) The credit period granted by the suppliers ranges from 30 days to 90 days.

As of the end of the reporting period, the ageing analysis of trade payables, based on the invoice date, is as follows:

	At 30 June 2014 HK$'000	At 31 December 2013 HK$'000
Within 1 month	**25,476**	12,187
1 to 3 months	**26,386**	11,361
Over 3 months but within 1 year	**4,922**	1,757
Over 1 year	**603**	231
	57,387	25,536

11 BANK LOANS

As at the periods end, the bank loans were repayable as follows:

	At 30 June 2014 *HK$'000*	At 31 December 2013 *HK$'000*
Within 1 year or on demand	**275,166**	51,665
After 1 year but within 2 years	**198,776**	62,730
After 2 years but within 5 years	**344,001**	187,808
After 5 years	**339,676**	249,995
Sub-total	**882,453**	500,533
Total	**1,157,619**	552,198

(i) Bank loans amounted to HK$1,128,437,000 as at 30 June 2014 (31 December 2013: HK$552,198,000) were floating-rate loans denominated in RMB which carried interest rates ranged from 6.46% to 7.38% (six months ended 30 June 2013: 6.00% to 7.05%).

(ii) Bank loans as at 30 June 2014 were secured by the charge rights of water supply and wastewater processing in certain subsidiaries of the Group, the Group's certain buildings and machineries, lease prepayments and equity interests in Lvyou, and were also guaranteed by certain third parties (31 December 2013: secured by the charge rights of water supply and wastewater processing in certain subsidiaries of the Group, and the Group's certain buildings and lease prepayments).

(iii) Bank loans amounted to HK$779,564,000 as at 30 June 2014 (31 December 2013: HK$238,863,000) are subject to the fulfillment of covenants as are commonly found in lending arrangements with financial institutions. The drawn down facility would become payable on demand if the covenant was breached. Pursuant to the terms of the bank loan agreements, certain subsidiaries are not allowed to distribute profit and/or to obtain other external financing prior to the lender's approval. The Group regularly monitors its compliance with these covenants. As at 30 June 2014, none of the covenants relating to drawn down facility had been breached.

12 DIVIDENDS

(i) No dividend has been proposed by the Company after the end of the reporting period attributable to the periods ended 30 June 2014 and 2013.

(ii) During the six months ended 30 June 2014, the Company declared and paid a final dividend in respect of the previous financial year ended 31 December 2013, of HK$0.03 per ordinary share, amounting HK$41,462,000 (six months ended 30 June 2013: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Outlook

We are a provider of one-stop centralised and customised wastewater treatment and industrial water supply services in China, focusing on industrial wastewater treatment. Our services cover the whole value chain of the wastewater treatment and industrial water supply services industry, from design planning, procurement and construction, to operations and maintenance of the wastewater treatment and water supply facilities. In addition, we also engaged in the sludge treatment service since second half of 2013 which is actually an extension of our wastewater treatment services along the value chain as sludge are residuals generated from wastewater treatment process.

In addition to the encouraging financial performance as detailed in the "Financial Review" section below, our Group had been awarded certain corporate achievements. On 6 March 2014, our Group was honored as a "Green Participant" in the "Hang Seng Pan Pearl River Delta Environmental Awards" jointly organized by Hong Kong Hang Seng Bank and Federation of Hong Kong Industries. Moreover, with effect from 30 May 2014, our Group has been included as a constituent of Morgan Stanley Capital International ("MSCI") China Small Cap Index. These achievements further enhanced our confidence in our expansion and development in future.

Wastewater treatment services

As at 30 June 2014, the constructed daily capacity of our facilities was 475,000 m^3 (31 December 2013: 365,000 m^3) for wastewater treatment and 150,000 m^3 (31 December 2013: 150,000 m^3) for industrial water supply while for those projects under planning or construction, the aggregate designed daily capacity is 355,000 m^3 for wastewater treatment and 100,000 m^3 for industrial water supply.

For the six months ended 30 June 2014, in addition to those facilities which have been in operation for a number of years with stable performance, we had constructed and acquired new projects to ensure growth in the scale of our wastewater treatment services.

Firstly, we have completed the construction and commenced the formal operation of Haitao Phase III in April 2014 with a constructed daily capacity of 50,000 m^3 for industrial wastewater treatment. In addition, on 19 May 2014, we have signed an agreement to acquire additional 49% equity stake of Yinglong, which was an associated company owned as to 46% by our Group immediately before this acquisition. The acquisition has been completed and Yinglong is currently a 95% owned subsidiary of our Group. Yinglong currently operates a wastewater treatment facility with a constructed daily capacity of 100,000 m^3. Details of the acquisition were set out in our announcement dated 19 May 2014. Both Haitao Phase III and Yinglong provides industrial wastewater treatment services to enterprises engaged in the textile and dyeing sector in Guangdong Province and both are operated under the Build-Own-Operate model (the "BOO Model"), which is consistent with our Group's core business.

Looking forward, we expect the wastewater treatment capacity to be further increased as we have secured the right of construction and development of additional wastewater treatment facilities including: 1) an industrial wastewater treatment facility with daily capacity of 50,000 m^3 and an industrial water supply facility with daily capacity of 50,000 m^3, both in an industrial park in Guangyuan City, Sichuan Province; 2) Phase II of Yinglong, which is currently under construction with a daily capacity of 150,000 m^3; and 3) Phase I of Guangfozhao project with an industrial wastewater treatment facility in Guangdong Province with a daily capacity of 50,000 m^3. Same as many of our existing projects, the above new projects will employ the BOO Model which we consider a better business model for dealing with industrial wastewater.

We focus on developing centralised and cost-efficient wastewater treatment facilities for industrial parks or clusters. Many local governments in China are increasingly promoting the large-scale development of selected industries in the form of specialised industrial parks or clusters. We expect this trend to continue and we believe our strong track record in providing centralised wastewater treatment services positions us well to capitalise on such opportunities. In future, we will focus on both existing and potential industrial parks or clusters in locations that: 1) have the potential of requiring centralised treatment facilities; 2) have a reliable and sustainable source of wastewater to be treated; and 3) have a strict enforcement of regulations by the local government.

Sludge treatment service

We commenced our sludge treatment service since the second half of 2013. As of 30 June 2014, our aggregate sludge treatment capacity was approximately 693,000 tonnes per annum which has been substantially increased compared to the capacity of approximately 138,000 tonnes per annum as of 31 December 2013. Such increase was related to an agreement signed on 30 April 2014 for the acquisition of 100% equity stake of Lvyou, which owns a large scale sludge treatment and solid waste treatment facilities with sludge treatment capacity of 555,000 tonnes per annum and a treatment capacity of 820,000 tonnes in aggregate per annum of various types of industrial solid waste. Details of this acquisition were set out in our announcement dated 30 April 2014.

For the six months ended 30 June 2014, revenue generated from the sludge treatment segment was approximately HK$96.2 million (six months ended 30 June 2013: Nil) while the proportion of revenue from sludge treatment segment to revenue of the Group was 25.8% (six months ended 30 June 2013: Nil). Such figures reflected the rapid pace of development of this segment. We expect this trend to continue in the second half of this year.

In addition to the acquisition for Lvyou as mentioned above which has substantially increased our capacity, we also expect our Group's sludge treatment capacity to be further increased by virtue of planned construction of additional facilities related to existing sludge treatment projects. For our Haitao Sludge, it is currently operating near its full capacity so that we plan to construct additional sludge treatment facilities in the same location and serve as an extension or another phase of the current capacity. At the same time, another subsidiary with sludge treatment capacity, Heyuan Solid, is also constructing additional facilities in the same location in order to satisfy the contemplated increase in demand for sludge treatment service, especially after the successful bidding of tender from the Shenzhen Municipal Water Affairs Bureau as announced on 15 April 2014 for sludge treatment service for three years. This will certainly enhance the utilization rate of Heyuan Solid.

In the second half of this year, we will also commence the construction of a sludge and solid waste treatment facility in Longmen County in Guangdong Province as disclosed in our announcement dated 31 December 2013 with an estimated capital expenditure of RMB150 million and is expected to commence its actual operation in the first half of year 2015.

As mentioned earlier, sludge is mainly generated from wastewater treatment process and so, for the purpose of entry into the sludge treatment business, there must be adequate source of polluting industrial enterprises or municipal wastewater treatment plants which are able to supply stable and reliable source of wastewater which in turn, after the wastewater treatment process, to supply stable and reliable source of sludge. In view of this, our Group should be in a better position since we are well positioned in the wastewater treatment sector already so that we have a higher possibility of securing wastewater treatment projects which ultimately provide a source of sludge for sludge treatment facilities. We believe that not many of the polluting industrial enterprises and third party wastewater treatment plants had been equipped with the necessary sludge treatment equipment and technology since the relevant sludge regulations were not promulgated until recent years. Under the above circumstance, we have confidence in capturing the sludge treatment market. On the government side, they realised that untreated sludge can cause severe pollution to the environment and hence the government is very determined in combating this issue. Our Group expects that the imposition of stricter environmental protection requirements on the sludge treatment sector will bring about business opportunities. We also expect this policy is a sustainable one since the sludge treatment market is only at its infant stage.

In future, another potential new income stream for our Group will be the sale of environmental friendly products which can be produced by using treated sludge from sludge treatment facilities. Some of our existing projects had also equipped with or plan to equip with production lines for the production of green bricks and light-weighted ceramsite etc. The government stance is to encourage the usage of the treated sludge to produce various types of products instead of simply dumping them without value-added use. We are still in the preliminary stage for the formal commercial roll-out of the sale of environmental friendly products but we realised the importance of such business segment in future so that we will also deploy part of our Group's resources to this potential market.

Subscription of shares of the Company

On 25 June 2014, the Company entered into a subscription agreement with Mr. Gu Yao Kun in relation to the subscription of 60,000,000 new shares (the "**Subscription Shares**") of the Company at the subscription price of HK$5.9 per Subscription Shares (the "**Subscription**"). As all the conditions precedent have been satisfied, the Subscription Shares was allotted and issued on 6 August 2014. The gross proceeds received from the Subscription was HK$354 million. We believed that the Subscription not only enhance our shareholders' base but will also enhance the financial position of our Group, and these benefits will in turn translate into greater profitability in future. Details of the Subscription were set out in our announcement dated 25 June 2014 and in our circular dated 21 July 2014. Save as disclosed above, there is no occurrence of other important events affecting the Group since 30 June 2014 to the date of this announcement.

Financial Review

Turnover

Our turnover increased by 68.7% to HK$372.9 million for the six months ended 30 June 2014 from HK$221.1 million for the six months ended 30 June 2013. Such increase was primarily due to (1) the contribution from Haitao Phase III, which is a new facility engaged in industrial wastewater treatment and commenced its formal operation in April 2014 (in partial operation since July 2013) so that there was no contribution to the revenue for the six months ended 30 June 2013 while there was six months' contributions to the revenue for the six months ended 30 June 2014; (2) the commencement of the sludge treatment business in the second half of 2013, together with the acquisitions of certain sludge treatment companies including Heyuan Solid in the second half of 2013 and Lvyou in the first half of 2014. There was no similar revenue for the six months ended 30 June 2013; and (3) the contribution from Yinglong, which is a 95% owned subsidiary with effect from 1 May 2014 and had revenue contribution to our Group for the six months ended 30 June 2014 while for the six months ended 30 June 2013, Yinglong was only an associate of our Group and its revenue was not included in the Group's revenue.

Cost of sales

Our total cost of sales increased by 64.8% to HK$138.4 million for the six months ended 30 June 2014 from HK$84.0 million for the six months ended 30 June 2013, primarily due to the increased number of wastewater treatment and sludge treatment facilities which were in line with the increased turnover in general. The above increase was partially offset by the decrease in the average purchase cost of sulfuric acid, one of our major raw materials used in wastewater treatment process.

Gross profit and gross profit margin

Our gross profit increased by 71.1% to HK$234.5 million for the six months ended 30 June 2014 from HK$137.1 million for the six months ended 30 June 2013, primarily as a result of the factors described above.

Our overall gross profit margin slightly increased to 62.9% for the six months ended 30 June 2014 from 62.0% for the six months ended 30 June 2013, primarily due to the reduced proportion of revenue from heating services from 18.0% for the six months ended 30 June 2013 to 10.8% for the six months ended 30 June 2014. Heating services had a lower level of gross profit margin compared with other business segments. Such reduced proportion was in turn attributable to the commencement of sludge treatment segment.

Administrative expenses

Our administrative expenses increased by 105.0% to HK$37.6 million for the six months ended 30 June 2014 from HK$18.3 million for the six months ended 30 June 2013. This was primarily due to (1) the increase in the number of subsidiaries acquired during the six months ended 30 June 2014; (2) increase of professional fees in relation to listing rule compliance and marketing of the Company's shares after the listing of the Company in September 2013.

Finance costs

Our finance costs increased by 35.3% to HK$21.1 million for the six months ended 30 June 2014 from HK$15.6 million for the six months ended 30 June 2013, primarily due to the increase in the amount of outstanding bank borrowings of the Group in relation to the completion of the acquisition of Lvyou and Yinglong. Such increase has been partially offset by repayment of bank borrowings of other subsidiaries of our Group.

Share of profit of an associate

Our share of profit of an associate decreased by 58.3% from HK$8.8 million for the six months ended 30 June 2013 to HK$3.7 million for the six months ended 30 June 2014, primarily due to the acquisition of additional 49% equity interest of Yinglong by our Group with effect from May 2014 so that Yinglong becomes a subsidiary of our Group and is not an associate anymore. The financial results of Yinglong had then been consolidated into our Group.

Profit before taxation

Our profit before taxation increased by 80.2% to HK$202.0 million for the six months ended 30 June 2014 from HK$112.1 million for the six months ended 30 June 2013, primarily due to the factors described above.

Income tax

Our income tax expenses for the six months ended 30 June 2014 did not have material fluctuation compared with the corresponding period last year. At the same time, the effective tax rate has been substantially decreased from 19.6% to 10.9%, which was mainly due to the fact that the newly developed facilities (including Haitao Phase III and Haitao Sludge) and newly acquired projects (including Lvyou, Yinglong and Heyuan Solid) were enjoying full tax exemption for the six months ended 30 June 2014 (six months ended 30 June 2013: these facilities and projects did not have any profit contributions yet).

Profit attributable to equity shareholders of the Company

Our profit attributable to equity shareholders of the Company has been increased by 98.7% to HK$178.8 million for the six months ended 30 June 2014 from HK$90.0 million for the six months ended 30 June 2013, primarily as a result of the factors described above.

Liquidity and Financial Resources

Our principal liquidity and capital requirements primarily relate to investments in our projects, acquisition of lease prepayments, construction of our wastewater treatment and industrial water supply facilities, purchases of equipment, costs and expenses related to the operation and maintenance of our facilities.

As at 30 June 2014, the carrying amount of the Group's cash and bank deposits was approximately HK$296.4 million, including deposits with a bank with original maturity date over three months (31 December 2013: HK$445.6 million, including deposits with a bank with original maturity date over three months), representing a decrease of 33.5% as compared to that as at 31 December 2013, which was mainly attributable to the effect of utilization of funds for our planned projects and for new acquisitions took place in the first half of 2014, which was partially offset with the increased funds coming from the inception of new bank borrowings.

As of 30 June 2014, the Group was in a net current liabilities position, which was mainly attributable to the receipt of deposit amounted to HK$250,000,000 in relation to the Subscription. We regard such net current liabilities position was only temporary since the Subscription was subsequently completed in August 2014 and the balance of such deposits was transferred from current liabilities to equity so that the Group will be in a net current assets position again.

Loans and Borrowings

As of 30 June 2014, our total amount of utilised bank loans was HK$1,157.6 million (31 December 2013: HK$552.2 million), and we had no un-utilised banking facilities.

These bank loans were secured by the charging rights of industrial water supply and wastewater treatment in certain subsidiaries of the Group, together with certain buildings, machineries, lease prepayments and equity interests in Lvyou, and were also guaranteed by certain third parties.

Our gearing ratio, as calculated by dividing our total borrowings by our total assets, was 37.2%, as of 30 June 2014 (31 December 2013: 29.2%). The increase in gearing ratio was primarily due to the completion of the acquisition of Lvyou and the completion of acquisition of additional 49% equity interest of Yinglong, both of which has certain bank borrowings for capital expenditure in relation to their development of sludge treatment facility and wastewater treatment facility respectively. We have also borrowed certain new bank borrowings to finance the acquisition of these subsidiaries. After the balance sheet date, the level of gearing has been reduced upon the completion of the Subscription in August 2014. The gross proceeds received by the Company and the corresponding increase in the amount of equity of the Company was HK$354 million.

Contingent Liabilities

As at 30 June 2014, the Group had no material contingent liabilities or guarantees. As at 31 December 2013 the Group, together with the other shareholders of Yinglong at that time, has issued a guarantee to a bank in respect of a bank loan granted to Yinglong. Subsequently in May 2014, Yinglong became a subsidiary of our Group and such guarantee was no longer being classified as a contingent liability of our Group.

Pledge of Assets

As at 30 June 2014, the Group pledged certain of its property, plant and machinery and lease prepayments with an aggregate carrying amount of approximately HK$84.5 million (31 December 2013: HK$14.5 million) to certain banks to secure certain credit facilities granted to the Group.

Material acquisitions and disposal

For the six months ended 30 June 2014, the Group have announced the following material acquisitions and assets:

(1) acquisition of the assets of an industrial wastewater treatment facility located in Junan County, Shunde District of Guangdong Province on 21 March 2014, with a proposed consideration of RMB115 million. Such acquisition is expected to be completed on or before 30 September 2014.

(2) acquisition of 100% equity interest of Lvyou, a company engaged in sludge and solid waste treatment in Qingyuan City of Guangdong Province, on 30 April 2014 with a consideration of RMB125 million. This acquisition has been completed.

(3) acquisition of additional 49% equity interest of Yinglong, a company engaged in industrial wastewater treatment in Zengcheng City of Guangdong Province, on 19 May 2014 with a consideration of RMB196 million. This acquisition has been completed.

For the six months ended 30 June 2014, there was no material disposals of assets.

Foreign currency risk

Individual companies within the Group have limited foreign currency risk as most of the transactions are denominated in the same currency as the functional currency of the operations in which they relate. However, as the principal subsidiaries mainly carried out transactions in RMB, therefore any appreciation or depreciation of Hong Kong Dollars against Renminbi will affect the Group's financial position and be reflected in the exchange reserve.

Employees and Remuneration Policy

As at 30 June 2014, the Group employed 1,032 employees (31 December 2013: 488). Employee costs amounted to approximately HK$26.4 million for the six months ended 30 June 2014 (six months ended 30 June 2013: approximately HK$10.7 million). The Group will endeavor to ensure that the employees' salary levels are in line with industry practice and prevailing market conditions and that employees' remuneration is based on their performance.

DIVIDEND

The Board had resolved not to declare an interim dividend for the six months ended 30 June 2014.

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

The Company and its subsidiaries did not purchase, sell or redeem any listed securities of the Company during the six months ended 30 June 2014.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company is committed to achieving and maintaining the highest standards of corporate governance, consistent with the needs and requirements of the business and its shareholders. The Company has adopted the code provisions set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). For the six months ended 30 June 2014, the Company has complied with all code provisions of the CG Code except that the Company has only two independent non-executive directors, two Audit Committee and two Remuneration Committee members following the resignation of Mr. Xu Zhen Cheng on 6 June 2014, which does not meet the requirement under the Listing Rules and Code Provision A.5.1 of the CG Code. On 21 August 2014, the Board appointed Mr. Du Hequn as an independent non-executive Director, a member of the Audit Committee and the chairman of the Remuneration Committee of the Company. Following Mr. Du's appointment, the Company fully comply with the requirement under the Listing Rules and the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the **"Model Code**") set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions by the Directors. Having made specific enquiry with all Directors, all Directors (except Mr. Du Hequn whose appointment as a Director took effect until after 30 June 2014) confirmed that they have complied with the required standard set out in the Model Code for the six months ended 30 June 2014.

EXTRACT OF THE DRAFT REVIEW REPORT BY KPMG ON THE GROUP'S INTERIM FINANCIAL REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2014

"Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2014 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

Other matter

Without modifying our review conclusion, we draw your attention that the comparative consolidated statement of profit or loss, statement of profit or loss and other comprehensive income for the six months ended 30 June 2013 and the comparative consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six months ended 30 June 2013 and the related notes disclosed in the interim financial report have not been reviewed in accordance with Hong Kong Standard on Review Engagements 2410."

AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") comprises three independent non-executive Directors, namely Mr. Lien Jown Jing, Vincent, Mr. Liu Yung Chau and Mr. Du Hequn. Mr. Lien has the appropriate professional qualifications and is serving as the Chairman of the Audit Committee. The Audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial report matters, including the interim financial report of the Group for the six months ended 30 June 2014.

REVIEW OF INTERIM RESULTS

The unaudited interim financial report of the Group for the six months ended 30 June 2014 has been reviewed by KPMG, the auditor of the Company, and the Audit Committee.

PUBLICATION OF INTERIM RESULTS

This announcement is published on the websites of the Company and the Stock Exchange of Hong Kong Limited. The interim report of the Company for the six months ended 30 June 2014 will be dispatched to shareholders of the Company and available on the above websites in due course.

BOARD OF DIRECTORS

As at the date of this announcement, the executive Directors are Mr. Tsui Cham To, Mr. Lu Yili, Mr. Xu Ju Wen, Mr. Xu Shu Biao, Mr. Xu Zi Tao, and the independent non-executive Directors are Mr. Liu Yung Chau, Mr. Lien Jown Jing, Vincent and Mr. Du Hequn.

By order of the Board
CT Environmental Group Limited
TSUI Cham To
Chairman

Hong Kong, 27 August 2014