



CETH

China Environmental Technology Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 646



INTERIM REPORT 2014

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CORPORATE INFORMATION

Board of Directors

Executive Directors:

Mr. Xu Zhong Ping (*Chairman*)
Mr. Pan Yutang (*Chief Executive Officer*)
Mr. Zhang Fang Hong
Mr. Xu Xiao Yang

Non-executive Director:

Mr. Cao Guo Xian
Mr. Ma Tianfu

Independent Non-executive Directors:

Mr. Wong Kam Wah
Mr. Xin Luo Lin
Prof. Zhu Nan Wen
Prof. Zuo Jiane

Audit Committee

Mr. Wong Kam Wah (*Chairman*)
Mr. Xin Luo Lin
Prof. Zhu Nan Wen
Prof. Zuo Jiane

Remuneration Committee

Mr. Wong Kam Wah (*Chairman*)
Mr. Xin Luo Lin
Prof. Zhu Nan Wen
Prof. Zuo Jiane

Nomination Committee

Mr. Xin Luo Lin (*Chairman*)
Mr. Wong Kam Wah
Prof. Zhu Nan Wen
Prof. Zuo Jiane

Company Secretary

Mr. Tang Yau Sing

Auditor

Crowe Horwath (HK) CPA Limited
(resigned on 15 August 2014)
9/F Leighton Centre
77 Leighton Road
Causeway Bay, Hong Kong

RSM Nelson Wheeler
(appointed on 27 August 2014)
29/F Caroline Centre
28 Yun Ping Road
Causeway Bay, Hong Kong

Legal Advisers

Conyers Dill & Pearman

Principal Share Registrar and Transfer Office

Royal Bank of Canada Trust Company
(Cayman) Limited
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Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

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Registered Office

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Listing Information

The Stock Exchange of Hong Kong Limited
Stock Code: 646

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 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)
		HK\$'000	HK\$'000
	<i>Note</i>		
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

		Six months ended 30 June	
	Note	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)

The notes on pages 9 to 19 form part of this interim report.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2014 — Unaudited

	At 30 June 2014 (Unaudited) HK\$'000	At 31 December 2013 (Audited) HK\$'000
<i>Note</i>		
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	35,233	21,767
Cash and cash equivalents	6,038	42,529
Pledged bank deposits	—	1,182
	60,822	81,512
Total assets	344,629	359,653
EQUITY		
Equity attributable to owners of the Company		
Share capital	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

	<i>Note</i>	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	13	63,000	63,500
Deferred tax liabilities		19,572	20,224
		<u>127,932</u>	<u>138,334</u>
Current liabilities			
Trade and other payables	14	62,271	56,291
Bank loans	13	63,593	39,370
Current income tax payable		704	709
		<u>126,568</u>	<u>96,370</u>
Total liabilities		<u>254,500</u>	<u>234,704</u>
Total equity and liabilities		<u>344,629</u>	<u>359,653</u>
Net current liabilities		<u>(65,746)</u>	<u>(14,858)</u>
Total assets less current liabilities		<u>218,061</u>	<u>263,283</u>

The notes on pages 9 to 19 form part of this interim report.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014 — Unaudited

	Attributable to the owners of the Company										
	Share capital	Share premium	Share Option reserve	Contributed surplus	Exchange reserve	Revaluation reserve-land and buildings	Other reserves	Retained profits/(accumulated losses)	Total	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
Balance at 31 January 2013 (audited)	62,508	162,813	17,297	(180)	13,237	6,919	10,348	(89,954)	182,988	198	183,186
Loss for the period	—	—	—	—	—	—	—	(18,764)	(18,764)	(149)	(18,913)
Other comprehensive income	—	—	—	—	503	—	777	—	1,280	—	1,280
Equity-settled share-based transactions	—	—	804	—	—	—	—	—	804	—	804
Balance at 30 June 2013 (unaudited)	62,508	162,813	18,101	(180)	13,740	6,919	11,125	(108,718)	166,308	49	166,357
Balance at 1 January 2014 (audited)	62,508	162,813	18,508	(180)	16,159	4,527	10,348	(149,537)	125,146	(197)	124,949
Loss for the period	—	—	—	—	—	—	—	(29,026)	(29,026)	(981)	(30,007)
Other comprehensive income	—	—	—	—	(6,452)	—	—	—	(6,452)	2	(6,450)
Disposal of interest in subsidiaries	—	—	—	—	—	—	—	—	—	1,637	1,637
Balance at 30 June 2014 (unaudited)	62,508	162,813	18,508	(180)	9,707	4,527	10,348	(178,563)	89,668	461	90,129

The notes on pages 9 to 19 form part of this interim report.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2014 — Unaudited

		Six months ended 30 June	
	<i>Note</i>	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Cash used in operations		(13,391)	(15,867)
Tax paid		—	(197)
Net cash used in operating activities		(13,391)	(16,064)
Net cash used in investing activities		(25,310)	(8,156)
Net cash from financing activities		6,978	65,490
(Decrease)/increase in cash and cash equivalents		(31,723)	41,270
Cash and cash equivalents at beginning of period	<i>11</i>	43,711	39,959
Effect on foreign exchange rate changes		(5,950)	(856)
Cash and cash equivalents at end of period	<i>11</i>	6,038	80,373
Analysis of the balances of cash and cash equivalents			
Cash and cash equivalents		6,038	80,373
		6,038	80,373

The notes on pages 9 to 19 form part of this interim report.

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 — <i>Investment Entities</i>
HKAS 32 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities</i>
HKAS 36 Amendments	Recoverable Amount Disclosures for Non-Financial Assets
HKAS 39 Amendments	Amendments to HKAS 39 <i>Financial Instruments: Recognition and Measurement — Novation of Derivatives and Continuation of Hedge Accounting</i>
HK(IFRIC) — Int 21	<i>Levies</i>

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

2. Summary of principal accounting policies (CONTINUED)

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	<i>Financial Instruments</i> ¹
HKFRS 14	<i>Regulatory Deferral Accounts</i> ⁴
Amendments to HKFRS 9, HKFRS 7 and HKAS 39	<i>Hedge Accounting</i> 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.

3. Segment reporting (CONTINUED)

(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 HK\$'000 (Unaudited)	30 June 2013 HK\$'000 (Unaudited)	30 June 2014 HK\$'000 (Unaudited)	30 June 2013 HK\$'000 (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	<u>52,934</u>	<u>29,296</u>	<u>(5,325)</u>	<u>(3,461)</u>

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

	Six months ended	
	30 June 2014 HK\$'000 (Unaudited)	30 June 2013 HK\$'000 (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	<u>(18,220)</u>	<u>(17,811)</u>
Consolidated loss before taxation attributable to operations	<u>(30,518)</u>	<u>(20,154)</u>

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
	<u>302</u>	<u>714</u>
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	—
	<u>1,937</u>	<u>584</u>

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)
	<u>(511)</u>	<u>(1,241)</u>

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)
	<u>(29,026)</u>	<u>(18,764)</u>

8. Loss per share (CONTINUED)

Basic (CONTINUED)

	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

10. Trade and other receivables (CONTINUED)

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 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (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 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (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 an increase of 80.69% as compared to HK\$29,296,000 for the six months ended 30 June 2013. Gross profit for the period decreased 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 have more room for the development of the water environmental protection industry in the future under this macroeconomic situation. Accordingly, the management has positioned 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).

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Outlook (CONTINUED)

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.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Outlook (CONTINUED)

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.

ADDITIONAL INFORMATION

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

As at 30 June 2014, 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

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 Beneficial owner	1,200,000,000	47.99%
		64,098,431	2.56%
		<u>1,264,098,431</u>	<u>50.55%</u>
Xu Xiao Yang	Beneficial owner	20,000,000	0.80%

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.

Apart from the foregoing, as at 30 June 2014, 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.

ADDITIONAL INFORMATION (CONTINUED)

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.

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 12 June 2014 was 64,500,000 shares which represents 2.58% of the issued share capital of the Company as at 12 June 2014. 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.

ADDITIONAL INFORMATION (CONTINUED)

Share Options (CONTINUED)

2010 Share Option Scheme (CONTINUED)

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 12.6.2014
				Balance at 1.1.2014	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
Pan Yutang	17 September 2010	17 September 2010 to 16 September 2020	0.46	3,000,000	—	—	—	3,000,000
Xu Xiao Yang	17 September 2010	17 September 2010 to 16 September 2020	0.46	3,000,000	—	—	—	3,000,000
Ma Tianfu	17 September 2010	17 September 2010 to 16 September 2020	0.46	3,000,000	—	—	—	3,000,000
Sub-total				<u>33,200,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>33,200,000</u>
Others								
Employees and other qualified participants	17 September 2010	17 September 2010 to 16 September 2020	0.46	31,300,000	—	—	—	31,300,000
Sub-total				<u>31,300,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>31,300,000</u>
Total				<u>64,500,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>64,500,000</u>

ADDITIONAL INFORMATION (CONTINUED)

Share Options (CONTINUED)

2010 Share Option Scheme (CONTINUED)

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.

Cancellation of Existing Share Options

As approved by the board of directors of the Company (the "Board") (including the approval of the independent non-executive directors of the Company) and consented to by each of the relevant grantees in writing, the Company and the relevant grantees agree that the Existing Share Options granted to the grantees shall be cancelled with effect from 12 June 2014 in accordance with the terms of the Share Option Scheme.

Reasons for Cancellation and Financial Effect on the Company

The purpose of the Share Option Scheme is to provide incentives or rewards to the grantees for their contribution to, and continuing efforts to promote the interests of, the Company and to enable the Company to recruit and retain high-calibre employees. As the exercise price of the Existing Share Options are comparatively high when compared with the recent market prices of the Shares, which deters the grantees from exercising the Existing Share Options to subscribe for the Shares, the Directors consider that it is in the interest of the Company and the grantees to cancel the Existing Share Options granted but not exercised.

The grantees whose share options have been cancelled shall not be entitled to any compensation or any consequential loss as a result of such cancellation. Therefore, there will not be any adverse financial effect as a result of the cancellation of the Existing Share Options granted but not exercised.

ADDITIONAL INFORMATION (CONTINUED)

Substantial Shareholders' Interests in Shares

As at 30 June 2014, 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	47.99%
Eternity Venture Limited	Beneficial owner	264,976,000	10.60%
Li Hanying (note)	Interest held by a controlled corporation	264,976,000	10.60%

Note:

Li Hanying is the sole shareholder of Eternity Venture Limited and was therefore deemed to be interested in the said 264,976,000 shares held by Eternity Venture Limited under Part XV of the SFO.

Save as disclosed above, as at 30 June 2014, 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.

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.

ADDITIONAL INFORMATION (CONTINUED)

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 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, 27 August 2014