



CETH

China Environmental Technology Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 646

Reliable

Efficiency

Service



Interim Report 2015

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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. Tse Chi Wai
Prof. Zhu Nan Wen
Prof. Zuo Jiane

Audit Committee

Mr. Tse Chi Wai (*Chairman*)
Prof. Zhu Nan Wen
Prof. Zuo Jiane

Remuneration Committee

Mr. Tse Chi Wai (*Chairman*)
Prof. Zhu Nan Wen
Prof. Zuo Jiane

Nomination Committee

Mr. Xu Zhong Ping (*Chairman*)
Mr. Tse Chi Wai
Prof. Zhu Nan Wen
Prof. Zuo Jiane

Company Secretary

Mr. Tang Yau Sing

Auditor

RSM Nelson Wheeler
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
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Tricor Standard Limited
Level 22
Hopewell Centre
183 Queen's Road East
Hong Kong

Registered Office

Cricket Square
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P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head Office and Principal Place of Business

Unit 1003-5
10th Floor, Shui On Centre
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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 2015 together with the comparative figures for the corresponding period in 2014.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2015 – Unaudited

		Six months ended 30 June	
	<i>Note</i>	2015 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000
CONTINUING OPERATIONS			
Turnover	3	22,432	25,184
Cost of sales		(15,105)	(21,357)
		7,327	3,827
Gross profit			
Other income	4	86	293
Other gain/(losses), net	4	8,454	1,937
Distribution costs		(734)	(1,238)
Administrative expenses		(32,666)	(28,942)
		(17,533)	(24,123)
Loss from operations			
Finance costs	5a	(4,103)	(4,127)
		(21,636)	(28,250)
Loss before taxation			
Income tax credit	6	260	175
		(21,376)	(28,075)
Loss for the period from continuing operations			
DISCONTINUED OPERATIONS			
Profit/(loss) for the period from discontinued operations		1,009	(1,932)
Loss on disposal of subsidiary		(17,894)	–
		(38,261)	(30,007)
Loss for the period			

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

For the six months ended 30 June 2015 – Unaudited

		Six months ended 30 June	
	<i>Note</i>	2015 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000
Loss for the period attributable to:			
Owners of the Company		(36,677)	(29,026)
Non-controlling interests		(1,584)	(981)
		(38,261)	(30,007)
Loss attributable to owners of the Company arising from:			
Continuing operations		(19,792)	(27,094)
Discontinued operations		(16,885)	(1,932)
		(36,677)	(29,026)
Loss per share from continuing and discontinued operations (HK cents)			
From continuing operations	8	(0.79)	(1.08)
From discontinued operations		(0.68)	(0.08)
		(1.47)	(1.16)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

For the six months ended 30 June 2015 – Unaudited

	Six months ended 30 June	
	2015 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000
<i>Note</i>		
Loss for the period	(38,261)	(30,007)
Other comprehensive income:		
Exchange differences on translating of foreign operations	151	(6,450)
Total other comprehensive income for the period	151	(6,450)
Total comprehensive loss for the period	(38,110)	(36,457)
Total comprehensive loss for the period attributable to:		
Owners of the Company	(36,526)	(35,478)
Non-controlling interests	(1,584)	(979)
	(38,110)	(36,457)
Total comprehensive loss for the period attributable to owners of the Company arises from:		
Continuing operations	(19,641)	(32,357)
Discontinued operations	(16,885)	(3,121)
	(36,526)	(35,478)

The notes on pages 10 to 24 form part of this interim report.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2015 – Unaudited

	<i>Note</i>	At 30 June 2015 (Unaudited) HK\$'000	At 31 December 2014 (Audited) HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment		30,052	31,517
Intangible assets		7,088	8,172
Goodwill	19	12,852	–
Interests in an associate		–	–
Interests in joint ventures		–	–
		49,992	39,689
Current assets			
Financial assets at fair value through profit or loss		208	140
Inventories		11,204	6,727
Trade and other receivables	10	83,600	47,215
Cash and cash equivalents	11	27,271	24,205
Gross amount due from customers for contract work		10,816	9,639
		133,099	87,926
Assets classified as held for sale		–	256,898
		133,099	344,824
Total assets		183,091	384,513
EQUITY			
Equity attributable to owners of the Company			
Share capital	12	62,508	62,508
Reserves		(52,647)	(16,121)
		9,861	46,387
Non-controlling interests		(3,355)	(1,043)
Total Equity		6,506	45,344

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(CONTINUED)

At 30 June 2015 – Unaudited

	<i>Note</i>	At 30 June 2015 (Unaudited) HK\$'000	At 31 December 2014 (Audited) HK\$'000
LIABILITIES			
Non-current liabilities			
Borrowings	13	63,000	63,000
Deferred revenue		549	848
Finance lease payables		4,423	5,660
Deferred tax liabilities		2,807	3,067
		<hr style="border-top: 1px solid black;"/>	<hr style="border-top: 1px solid black;"/>
		70,779	72,575
		<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Current liabilities			
Trade and other payables	14	74,045	109,276
Current tax liabilities		17,148	703
Borrowings	13	10,584	12,726
Deferred revenue		599	599
Finance lease payables		3,430	3,430
		<hr style="border-top: 1px solid black;"/>	<hr style="border-top: 1px solid black;"/>
		105,806	126,734
		<hr style="border-top: 1px solid black;"/>	<hr style="border-top: 1px solid black;"/>
Liabilities directly associated with assets classified as held for sale		–	139,860
		<hr style="border-top: 1px solid black;"/>	<hr style="border-top: 1px solid black;"/>
Total liabilities		176,585	339,169
		<hr style="border-top: 1px solid black;"/>	<hr style="border-top: 1px solid black;"/>
Total equity and liabilities		183,091	384,513
		<hr style="border-top: 1px solid black;"/>	<hr style="border-top: 1px solid black;"/>
Net current assets		27,293	78,230
		<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Total assets less current liabilities		77,285	117,919
		<hr style="border-top: 1px solid black;"/>	<hr style="border-top: 1px solid black;"/>

The notes on pages 10 to 24 form part of this interim report.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2015 – Unaudited

	Attributable to the owners of the Company							Retained profits/ (accumulated losses)	Total	Non-controlling interests	Total equity
	Share capital	Share premium	Share Option reserve	Contributed surplus	Exchange reserve	Revaluation reserve-land and buildings	Other reserves				
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 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
Balance at 31 January 2015 (audited)	62,508	162,813	-	(180)	9,309	4,677	10,348	(203,088)	46,387	(1,043)	45,344
Loss for the period	-	-	-	-	-	-	-	(36,677)	(36,677)	(1,584)	(38,261)
Other comprehensive income	-	-	-	-	151	-	-	-	151	-	151
Capital contribution from non-controlling shareholders of a subsidiary	-	-	-	-	-	-	-	-	-	(728)	(728)
Balance at 30 June 2015 (unaudited)	62,508	162,813	-	(180)	9,460	4,677	10,348	(239,765)	9,861	(3,355)	6,506

The notes on pages 10 to 24 form part of this interim report.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2015 – Unaudited

		Six months ended 30 June	
	<i>Note</i>	2015 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000
Cash used in operations		(114,967)	(13,391)
Tax paid		–	–
Net cash used in operating activities		(114,967)	(13,391)
Net cash generated from/(used in) investing activities		125,663	(25,310)
Net cash (used in)/generated from financing activities		(7,781)	6,978
Increase/(decrease) in cash and cash equivalents		2,915	(31,723)
Cash and cash equivalents at beginning of period	<i>11</i>	24,205	43,711
Effect on foreign exchange rate changes		151	(5,950)
Cash and cash equivalents at end of period	<i>11</i>	27,271	6,038
Analysis of the balances of cash and cash equivalents			
Cash and cash equivalents		27,271	6,038
		27,271	6,038

The notes on pages 10 to 24 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 2014.

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 2014, 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 2015.

Amendments to HKAS 19	<i>Defined Benefit Plans: Employee Contribution</i>
Annual Improvements 2010-2012 Cycle	<i>Amendments to a number of HKFRSs</i>
Annual Improvements 2011-2013 Cycle	<i>Amendments to a number of HKFRSs</i>

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	<i>Financial Instruments</i> ³
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an investor and its Associate or Joint Ventures</i> ¹
Amendments to HKFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i> ¹
HKFRS 14	<i>Regulatory Deferral Accounts</i> ⁴
HKFRS 15	<i>Revenue from Contracts with Customers</i> ²
Amendments to HKAS 1	<i>Disclosure initiative</i> ¹

2. Summary of principal accounting policies (CONTINUED)

Amendments to HKAS 9 and HKFRS 7	<i>Mandatory effective date of HKFRS 9 and transition disclosures³</i>
Amendments to HKAS 10, HKFRS 12 and HKAS 28	<i>Investment entities: Applying the consolidation exception¹</i>
Amendments to HKAS 16 and HKAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation¹</i>
Amendments to HKAS 16 and HKAS 41	<i>Agriculture: Bearer Plants¹</i>
Amendments to HKAS 27 (2011)	<i>Equity Method in Separate Financial Statements¹</i>
Annual Improvements 2012-2014 Cycle	<i>Amendment to a number of HKFRSs¹</i>

¹ Effective for annual periods beginning on or after 1 July 2016

² Effective for annual periods beginning on or after 1 January 2017

³ Effective for annual periods beginning on or after 1 January 2018

⁴ Effective for an entity that first adopts HKFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

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 divisions which are organised from the product perspective.

Operating segments are identified on the basis of internal reports which provide information about components of the Group. These information are reported to and reviewed by the Directors, being the chief operating decision-maker ("CODM") for the purposes of resources allocation and performance assessment. The Group has presented the following two reportable segments. No operating 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 2015 HK\$'000 (Unaudited)	30 June 2014 HK\$'000 (Unaudited)	30 June 2015 HK\$'000 (Unaudited)	30 June 2014 HK\$'000 (Unaudited)
Continuing operations				
Wastewater treatment and construction services	9,887	6,534	305	76
Wastewater treatment equipment trading	12,545	3,244	(6,376)	(7,749)
Total for continuing operations	22,432	9,778	(6,071)	(7,673)
Discontinued operations				
Wastewater treatment and construction service-BOT	21,459	27,750	(51)	2,331
Total for discontinued operations	21,459	27,750	(51)	2,331
Unallocated items	-	15,406	-	17
Total for continuing and discontinued operations	43,891	52,934	(6,122)	(5,325)

3. Segment reporting *(CONTINUED)*

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

	Six months ended	
	30 June 2015 HK\$'000 (Unaudited)	30 June 2014 HK\$'000 (Unaudited)
Reportable segment results	(6,071)	(7,656)
Other income and other losses, net	8,540	2,230
Depreciation and amortisation	(336)	(477)
Finance costs	(4,103)	(4,127)
Unallocated head office and corporate expenses	(19,666)	(18,220)
	<hr/>	<hr/>
Consolidated loss before taxation attributable to continuing operations	(21,636)	(28,250)
Consolidated loss before taxation attributable to discontinued operations	(573)	(2,268)
	<hr/>	<hr/>
	(22,209)	(30,518)
	<hr/>	<hr/>

4. Other income and other gain, net

	Six months ended	
	30 June 2015 HK\$'000 (Unaudited)	30 June 2014 HK\$'000 (Unaudited)
Other income		
Interest income on bank deposits	81	40
Others	5	253
	<hr/>	<hr/>
Attributable to continuing operations	86	293
Attributable to discontinued operations	–	9
	<hr/>	<hr/>
	86	302
	<hr/>	<hr/>
Other gain, net		
Net unrealised gain on financial assets at fair value through profit or loss	68	–
Gain on disposal of interest in subsidiaries	–	1,937
Gain on deemed disposal of interest in joint ventures	3,500	–
Gain on sale and leaseback of property, plant and equipment	299	–
Reversal of impairment loss on amount due from a joint venture	4,587	–
	<hr/>	<hr/>
Attributable to continuing operations	8,454	1,937
Attributable to discontinued operations	–	–
	<hr/>	<hr/>
	8,454	1,937
	<hr/>	<hr/>

5. Loss before taxation

Loss before taxation is arrived at after charging:

	Six months ended	
	30 June 2015 HK\$'000 (Unaudited)	30 June 2014 HK\$'000 (Unaudited)
(a) Finance costs:		
Interest on bank borrowings wholly repayable within five years	4,103	4,127
	<hr/>	<hr/>
Attributable to continuing operations	4,103	4,127
Attributable to discontinued operations	695	4,608
	<hr/>	<hr/>
	4,798	8,735
	<hr/>	<hr/>
(b) Other items:		
Continuing operations		
Amortisation of intangible assets	1,084	1,084
Depreciation of property, plant and equipment	1,537	1,544
	<hr/>	<hr/>
Discontinued operations		
Amortisation of operating concessions	869	4,747
Depreciation of property, plant and equipment	110	95
	<hr/>	<hr/>

6. Income tax credit

	Six months ended	
	30 June 2015 HK\$'000 (Unaudited)	30 June 2014 HK\$'000 (Unaudited)
Current tax – PRC corporate income tax	–	–
Deferred tax	(260)	(175)
	<hr/>	<hr/>
	(260)	(175)
	<hr/>	<hr/>

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 2015. 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 2015 (30 June 2014: Nil).

8. Loss per share

Basic

Basic loss per share is calculated by dividing the loss 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 2015 HK\$'000	30 June 2014 HK\$'000
Attributable to the owners of the Company		
From continuing operations	(19,792)	(27,094)
From discontinued operations	(16,885)	(1,932)
	(36,677)	(29,026)
	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

During the period, the Group spent HK\$101,000 (six months ended 30 June 2014: HK\$11,599,000) on property, plant and equipment.

10. Trade and other receivables

	30 June 2015 HK\$'000 (Unaudited)	31 December 2014 HK\$'000 (audited)
Trade receivables	35,204	26,226
Other receivables	36,747	17,074
Prepayments and deposits	11,649	3,915
	83,600	47,215

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

	30 June 2015 HK\$'000 (Unaudited)	31 December 2014 HK\$'000 (audited)
Within 2 months	12,004	9,566
More than 2 months but within 3 months	8,574	298
More than 3 months but less than 12 months	13,593	15,783
More than 12 months	1,033	2,724
	35,204	28,371

11. Cash and cash equivalents

	30 June 2015 HK\$'000 (Unaudited)	31 December 2014 HK\$'000 (audited)
Cash and bank balances	26,995	7,879
Pledged bank deposits	276	16,326
	27,271	24,205

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 2014 and 30 June 2015	2,500,303	62,508

13. Bank loans

	30 June 2015 HK\$'000 (Unaudited)	31 December 2014 HK\$'000 (audited)
Non-current liabilities		
Entrusted loan	63,000	63,000
Current liabilities		
Portion of bank loans and other borrowings due for repayment within 1 year	10,584	12,726
Total borrowings	73,584	75,726

14. Trade and other payables

	30 June 2015 HK\$'000 (Unaudited)	31 December 2014 HK\$'000 (audited)
Trade payables	13,673	18,861
Other payables and accruals	50,496	25,830
Advanced proceeds from disposal of business	–	63,000
Amount due to non-controlling interests	1,341	1,341
Sale deposits received	8,535	244
	<hr/> 74,045 <hr/>	<hr/> 109,276 <hr/>

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

	30 June 2015 HK\$'000 (Unaudited)	31 December 2014 HK\$'000 (audited)
Within 1 month	1,554	4,090
After 1 month but within 3 months	767	1,344
After 3 months but within 6 months	4,171	10,776
After 6 months but within 1 year	675	710
After 1 year	6,506	16,941
	<hr/> 13,673 <hr/>	<hr/> 33,861 <hr/>

15. Operating lease commitments

As lessee

At 30 June 2015, the total future minimum lease payments under non-cancellable operating leases are as follows:

	30 June 2015 HK\$'000 (Unaudited)	31 December 2014 HK\$'000 (audited)
Within 1 year	1,204	4,520
After 1 year but within 5 years	–	538
	1,204	5,058

16. Capital commitments

At 30 June 2015, the Group had the following capital commitments:

	30 June 2015 HK\$'000 (Unaudited)	31 December 2014 HK\$'000 (audited)
Contracted, but not provided for		
– Upgrade and construction of wastewater treatment plants under a service concession arrangement on a BOT basis	–	31,335
– Purchase of equipment	2,860	2,860
	2,860	34,195

17. Comparative amounts

The comparative consolidated statement of comprehensive income has been re-presented as if operations discontinued during the current period had been discontinued at the beginning of the comparative period.

18. Discontinued operations

On 19 December 2014, the Group entered into a sale and purchase agreement with Beijing Capital Co., Ltd to dispose of the entire equity interest in Fanhe (Hulu Island) Water Investment Company Limited ("Fanhe Hulu") at a total consideration of RMB102 million (equivalent to approximately HK\$129 million). The principal asset of Fanhe Hulu is the concession rights to a wastewater treatment plant project under a BOT basis. The disposal was completed on 17 February 2015. The results of the discontinued operations included in the loss for the period are set out below.

(a) Results of the discontinued operations:

	Period from 1 January 2014 to 17 February 2015 HK\$'000
Revenue	21,459
Cost of sales	(19,624)
Administrative expenses	(199)
	<hr/>
Profit from operations from discontinued operations	1,636
Finance costs	(695)
	<hr/>
Profit before taxation from discontinued operations	941
Income tax	68
	<hr/>
	1,009
Loss on disposal of discontinued operations (net of tax)	(17,894)
	<hr/>
Loss for the period	(16,885)
	<hr/>

18. Discontinued operations (CONTINUED)

(b) Results of the discontinued operations is arrived at after charging/ (crediting) the following:

	Period from 1 January 2015 to 17 February 2015 HK\$'000
Interest on bank advances wholly repayable within five years	695
Salaries, wages and other benefits	100
Amortisation of operating concessions (included in cost of sales)	869
Cost of construction contracts	17,238
Depreciation	110
	<hr/>

(c) Cash flows of the discontinued operations:

	Period from 1 January 2015 to 17 February 2015 HK\$'000
Net cash generated from operating activities	50,418
Net cash used in investing activities	(19,245)
Net cash used in financing activities	(28,415)
	<hr/>
Net cash inflows for the period	2,758
	<hr/>

18. Discontinued operations (CONTINUED)

(d) Effect of the disposal on the financial position of the Group: For the period from 1 January 2015 to 30 June 2015

HK\$'000

Net assets disposed of:

Property, plant and equipment	182
Operating concessions	268,629
Trade and other receivables	21,050
Inventories	275
Cash and cash equivalents	4,386
Bank loans	(71,820)
Trade and other payables	(77,426)
Deferred tax liabilities	(16,929)

Net identifiable assets	128,347
Loss on disposal of subsidiary	(17,894)

110,453

Satisfied by:

Cash consideration	128,520
Transaction costs	(18,067)

110,453

Analysis of the net cash outflow in respect of the disposal of subsidiary

Cash consideration	128,520
Transaction costs	(18,067)
Cash and cash equivalents disposed of	(4,386)

Net cash inflows 106,067

19. Business Combination

On 31 December 2014, the Group entered into an agreement (the "Agreement") with an joint venture partner (the "Vendor") to purchase 40% equity interest in Beijing Capital Environment Construction Company Limited ("BCEC") and its subsidiaries ("BCEC Group") at a total consideration of HK\$2,800,000. The acquisition was completed on 30 January 2015 which is also the acquisition date ("Acquisition Date") for accounting purpose. BCEC Group is the joint ventures of the Group. After the acquisition, the Group have totally 90% equity interest in BCEC Group. BCEC is an investment holding company incorporated in Cayman Islands. BCEC Group is engaged in the provision of environmental consultancy services. Through the acquisition, the Group is able to expand its business.

	Acquirees' fair value at acquisition date <i>HK\$'000</i>
Assets acquired and liabilities recognised at the date of acquisition were as follows:	
Plant and equipment	79
Inventories	1,178
Prepayment, deposit and other receivables	1,660
Bank balances and cash	1,477
Other payables and accruals	(11,674)
	<hr/>
Net liabilities	(7,280)
Non-controlling interests	728
Goodwill arising on acquisition	12,852
	<hr/>
Total consideration	6,300
	<hr/>
Total purchase consideration satisfied by:	
Cash consideration	2,800
Generated from deemed disposal of interest in joint ventures	3,500
	<hr/>
	6,300
	<hr/>
Net cash outflow arising on acquisition:	
Cash consideration	2,800
Bank balances and cash acquired	(1,477)
	<hr/>
Net cash outflow on acquisition of subsidiaries	1,323
	<hr/>

MANAGEMENT DISCUSSION AND ANALYSIS

Results and Business Review

During the six months ended 30 June 2015, the Group recorded a turnover from continuing operations of approximately HK\$22,432,000, representing a decrease of 10.93% as compared to HK\$25,184,000 for the six months ended 30 June 2014 and recorded a turnover from discontinued operations of approximately HK\$21,459,000, representing a decrease of 22.67% as compared to HK\$27,750,000 for the six months ended 30 June 2014. Gross profit from continuing operations for the period increase to approximately HK\$7,327,000 (six months ended 30 June 2014: HK\$3,827,000) and gross profit from discontinued operations for the period decrease to approximately HK\$1,835,000 (six months ended 30 June 2014: HK\$4,093,000). The Group's loss from continuing operations attributable to owners of the Company for the period was approximately HK\$19,792,000 (six months ended 30 June 2014: loss HK\$27,094,000) and the Group's loss from discontinued operations attributable to owners of the Company for the period was approximately HK\$16,885,000 (six months ended 30 June 2014: loss HK\$1,932,000).

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

To maintain our competitiveness in the market, the Group will focus more on our core business and the magnetic separation water treatment technology to improve and develop its river-water treatment business and expand service dimensions to our customers. The Directors believed that our technology is fitted to the market needs and it is well equipped to face challenges from the market.

Moving forward, we aimed at reaching out to a more diversified business line via seeking new opportunities in China market. To achieve this goal, we will engage more actively in seeking collaboration partners to provide more innovative business solutions. We also continue to improve operational effectiveness in order to drive our business for continued growth.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Liquidity

The Group continued to maintain a liquid position. As 30 June 2015, cash and bank balances of the Group were approximately HK\$27,271,000 (31 December 2014: HK\$25,833,000 including those classified as part of a disposal group held for sale).

As at 30 June 2015, the Group had total assets of approximately HK\$183,091,000 (31 December 2014: HK\$384,513,000) and total liabilities of approximately HK\$176,585,000 (31 December 2014: HK\$339,169,000). As at 30 June 2015, the current ratio was 1.26 (31 December 2014: 1.29).

The Group's borrowings and finance lease payables for the period amounted to approximately HK\$81,437,000 (31 December 2014: HK\$184,356,000 including those classified as part of a disposal group held for sale). The Group's borrowings and finance lease payables are denominated in Renminbi, mainly comprise term loans bearing fixed and variable interest rates and an entrusted loan at fixed interest rate. The Group's gearing ratio, being the ratio of the total debts to total assets, was 44.48% (31 December 2014: 47.95%).

Charge on Assets

As at 30 June 2015, none of the Group's operating concessions (31 December 2014: HK\$250,259,000) 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 2015 was 120 (31 December 2014: 196). 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 2015, 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"). Classy Jade Limited owns 60% of the issued share capital of Gentle. Mr. Xu Zhong Ping is the sole shareholder of Classy Jade Limited. 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 2015, 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 Scheme

2002 Share option scheme

The Company's 2002 Share Option Scheme was adopted on 28 March 2001 and was terminated by a resolution passed by shareholders of the Company on 10 September 2010.

2010 Share option scheme

Pursuant to a resolution approved by the shareholders of the Company on 10 September 2010 (the "Effective Date"), the Company adopted a new share option scheme (the "2010 Share Option Scheme"), which is for the purpose 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.

Pursuant to the 2010 Share Option Scheme, the maximum number of shares which may be issued upon exercise of all outstanding options granted and not yet exercised under the 2010 Share Option Scheme and any other share option schemes of the Company shall not exceed 30% of the share in issue from time to time. The subscription price for shares in respect of any options granted under the 2010 Share Option Scheme will be a price determined by the Directors of the Company, in its absolute discretion, but in any case will not be lower than the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet for trades in one or more board lots of Shares on the offer date; (ii) the average closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the five Business Days immediately preceding the offer date; and (iii) the nominal value of a share. Each option gives the holder the right to subscribe for one ordinary share in the Company. 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. Offer of an option shall have been accepted when the duplicate letter comprising acceptance of the option duly signed by the grantee together with a remittance of HK\$1 is received within such time as may be specified in the offer, which shall not be later than 21 days from the date of offer. An option may be exercised in accordance with the terms of the 2010 Share Option Scheme at any time during a period as the Board may in its absolute discretion determine which shall not be more than 10 years from the date of grant of the option and subject to the provisions of early termination thereof and the Board may provide restrictions on the exercise of an option. As at 30 June 2015, no share option had been granted, cancelled or lapsed under the 2010 Share Option Scheme. A summary of the principal terms and conditions of the 2010 Share Option Scheme are set out in Appendix to the circular of the Company dated 25 August 2010 and in the section "Report of the Directors" on pages 31 of the 2014 Annual Report of the Company respectively.

ADDITIONAL INFORMATION (CONTINUED)

Substantial Shareholders' Interests in Shares

As at 30 June 2015, 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 shares capital
Gentle International Holdings Limited ("Gentle")	Beneficial owner	1,200,000,000	47.99
Classy Jade Limited	Interest of a controlled corporation (<i>Note 1</i>)	1,200,000,000	47.99
Xu Zhong Ping	Interest of a controlled corporation (<i>Note 1</i>)	1,200,000,000	47.99
Eternity Venture Limited ("EVL")	Beneficial owner	121,000,000	4.84
Longisland Investment Group Limited ("LIG")	Interest of a controlled corporation (<i>Note 2</i>)	121,000,000	4.84
Zhao Jinyue	Interest of a controlled corporation (<i>Note 2</i>)	121,000,000	4.84
Chung Cheong Group Limited	Beneficial owner	102,304,000	4.09
Mo Huiqin	Interest of a controlled corporation (<i>Note 3</i>)	102,304,000	4.09

Note:

- Classy Jade Limited owns 60% of the issued share capital of Gentle. Xu Zhong Ping is the sole shareholder of Classy Jade Limited and was therefore deemed to be interested in the said 1,200,000,000 shares held by Gentle under Part XV of the SFO.
- Zhao Jinyue is the sole shareholder of LIG, LIG is the sole shareholder of EVL and was therefore deemed to be interested in the said 121,000,000 shares held by EVL under Part XV of the SFO.
- Mo Huiqin is the sole shareholder of Chung Cheong Group Limited and was therefore deemed to be interested in the said 102,304,000 shares held by Chung Cheong Group Limited under Part XV of the SFO.

Save as disclosed above, as at 30 June 2015, so far as is known to the Directors, no person (other than the Directors whose interests are set out in the section headed "Directors' and Chief Executive's Interests in Shares and Underlying Shares" above) had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

ADDITIONAL INFORMATION (CONTINUED)

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

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

Corporate Governance

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

The Company has complied with the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), throughout the six months ended 30 June 2015 except for the code provisions in respect of A.4.1 and E.1.2. Details of the deviations from code provisions A.4.1 and E.1.2 in respect of service term of the non-executive Directors and the chairman of the Board should attend the annual general meeting are explained in the section "Corporate Governance" on pages 16 of the 2014 Annual Report respectively.

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 2015.

Audit Committee

The Company's audit committee is composed of three independent non-executive Directors of the Company. The audit committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the unaudited interim financial statements for the six months ended 30 June 2015.

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

On behalf of the Board, I would like to express our appreciation to all our management and staff members for their ongoing contribution and hard work. We would also like to thank our shareholders for their continuing support.

By order of the Board
Xu Zhong Ping
Chairman

Hong Kong, 26 August 2015