



Interim Report 2016



CETH

China Environmental Technology Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 646



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CORPORATE INFORMATION

Board of Directors

Executive Directors:

Mr. Xu Zhong Ping (*Chairman*)
 Mr. 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. Li Jun

Audit Committee

Mr. Tse Chi Wai (*Chairman*)
 Prof. Zhu Nan Wen
 Prof. Li Jun

Remuneration Committee

Mr. Tse Chi Wai (*Chairman*)
 Prof. Zhu Nan Wen
 Prof. Li Jun

Nomination Committee

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

Company Secretary

Mr. Li Wang Hing, Nelson

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
 Hutchins Drive
 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
 6-8 Harbour Road
 Wanchai
 Hong Kong
 Tel: (852) 2511 1870
 Fax: (852) 2511 1878

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 2016 together with the comparative figures for the corresponding period in 2015.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2016 – Unaudited

		Six months ended 30 June	
	<i>Note</i>	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
CONTINUING OPERATIONS			
Turnover	4	32,349	22,432
Cost of sales		(21,333)	(15,105)
		11,016	7,327
Gross profit			
Other income	5	62	86
Other (losses)/gain, net	5	(897)	8,454
Distribution costs		(622)	(734)
Administrative expenses		(26,783)	(32,666)
		(17,224)	(17,533)
Loss from operations			
Finance costs	6a	(4,645)	(4,103)
		(21,869)	(21,636)
Loss before taxation			
Income tax credit	7	1,071	260
		(20,798)	(21,376)
Loss for the period from continuing operations			
DISCONTINUED OPERATIONS			
Profit for the period from discontinued operations		–	1,009
Loss on disposal of subsidiary		–	(17,894)
		(20,798)	(38,261)
Loss for the period			



CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

For the six months ended 30 June 2016 – Unaudited

		Six months ended 30 June	
	<i>Note</i>	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Loss for the period attributable to:			
Owners of the Company		(20,917)	(36,677)
Non-controlling interests		119	(1,584)
		(20,798)	(38,261)
Loss attributable to owners of the Company arising from:			
Continuing operations		(20,917)	(19,792)
Discontinued operations		–	(16,885)
		(20,917)	(36,677)
Loss per share from continuing and discontinued operations (HK cents)			
From continuing operations	9	(0.84)	(0.79)
From discontinued operations		–	(0.68)
		(0.84)	(1.47)



CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

For the six months ended 30 June 2016 – Unaudited

	Six months ended 30 June	
<i>Note</i>	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Loss for the period	(20,798)	(38,261)
Other comprehensive income:		
Exchange differences on translating of foreign operations	3,420	151
Total other comprehensive income for the period	3,420	151
Total comprehensive loss for the period	(17,378)	(38,110)
Total comprehensive loss for the period attributable to:		
Owners of the Company	(17,497)	(36,526)
Non-controlling interests	119	(1,584)
	(17,378)	(38,110)
Total comprehensive loss for the period attributable to owners of the Company arises from:		
Continuing operations	(17,497)	(19,641)
Discontinued operations	–	(16,885)
	(17,497)	(36,526)

The notes on pages 10 to 23 form part of this interim report.



CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2016 – Unaudited

	<i>Note</i>	At 30 June 2016 (Unaudited) HK\$'000	At 31 December 2015 (Audited) HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment		19,149	29,001
Intangible assets		4,968	5,901
Goodwill		–	–
Interests in an associate		–	–
Interests in joint ventures		–	–
		24,117	34,902
Current assets			
Financial assets at fair value through profit or loss		69	99
Inventories		6,333	6,043
Trade and other receivables	11	70,418	68,868
Cash and cash equivalents	12	18,795	29,440
Gross amount due from customers for contract work		11,574	11,754
		107,189	116,204
Total assets		131,306	151,106
EQUITY			
Equity attributable to owners of the Company			
Share capital	13	62,508	62,508
Reserves		(113,849)	(96,352)
		(51,341)	(33,844)
Non-controlling interests		(1,691)	(1,810)
Total Equity		(53,032)	(35,654)



CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(CONTINUED)

At 30 June 2016 – Unaudited

	<i>Note</i>	At 30 June 2016 (Unaudited) HK\$'000	At 31 December 2015 (Audited) HK\$'000
LIABILITIES			
Non-current liabilities			
Borrowings	14	22,750	17,450
Deferred revenue		232	236
Finance lease payables		340	1,850
Deferred tax liabilities		1,421	2,527
		24,743	22,063
Current liabilities			
Trade and other payables	15	73,589	76,787
Current tax liabilities		13,412	13,639
Borrowings	14	68,602	70,210
Deferred revenue		556	565
Finance lease payables		3,436	3,496
		159,595	164,697
Total liabilities		184,338	186,760
Total equity and liabilities		131,306	151,106
Net current liabilities		(52,406)	(48,493)
Total assets less current liabilities		(28,289)	(13,591)

The notes on pages 10 to 23 form part of this interim report.



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016 – Unaudited

	Attributable to the owners of the Company							Total	Non-controlling interests	Total equity
	Share capital	Share premium	Contributed surplus	Exchange reserve	Revaluation reserve-land and buildings	Other reserves	Retained profits/ (accumulated losses)			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 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
Balance at 1 January 2016 (audited)	62,508	162,813	(180)	3,523	4,349	7,442	(274,299)	(33,844)	(1,810)	(35,654)
Loss for the period	-	-	-	-	-	-	(20,917)	(20,917)	119	(20,798)
Other comprehensive income	-	-	-	3,420	-	-	-	3,420	-	3,420
Transfer upon disposal of leasehold land and building	-	-	-	-	(3,106)	-	3,106	-	-	-
Balance at 30 June 2016 (unaudited)	62,508	162,813	(180)	6,943	1,243	7,442	(292,110)	(51,341)	(1,691)	(53,032)

The notes on pages 10 to 23 form part of this interim report.



CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016 – Unaudited

	<i>Note</i>	Six months ended 30 June	
		2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Cash used in operations		(19,958)	(114,967)
Tax paid		(227)	–
Net cash used in operating activities		(20,185)	(114,967)
Net cash generated from investing activities		8,656	125,663
Net cash used in financing activities		(2,536)	(7,781)
(Decrease)/increase in cash and cash equivalents		(14,065)	2,915
Cash and cash equivalents at beginning of period	12	29,440	24,205
Effect on foreign exchange rate changes		3,420	151
Cash and cash equivalents at end of period	12	18,795	27,271
Analysis of the balances of cash and cash equivalents			
Cash and cash equivalents		18,795	27,271
	12	18,795	27,271

The notes on pages 10 to 23 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 2015.

2. Going concern

For the period ended 30 June 2016, the Group incurred a loss for the period of HK\$20,798,000 and had net cash outflows from operating activities of HK\$20,185,000. As at 30 June 2016, the Group had net current liabilities and net liabilities of HK\$52,406,000 and HK\$53,032,000 respectively. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group’s ability to continue as a going concern as a result of which it may be unable to realise its assets and discharge its liabilities in the normal course of business. Accordingly, the directors of the Company have given careful consideration to the current and anticipated future liquidity of the Group and the ability of the Group to attain profitable and positive cash flows from operations in the immediate and longer term, and the continued financial support from the Group’s bankers and independent bond holders. The directors considered that it is appropriate to adopt the going concern basis of accounting in preparing the condensed financial statements, in particular based on the facts below.

In order to improve the Group’s financial position, immediate liquidity and cash flows and otherwise to sustain the Group as a going concern, the Group has taken the following measures:

- (a) The directors of the Company have been taking various cost control measures to tighten the costs of operations and various general and administrative expenses.
- (b) The directors of the Company are presently exploring different alternatives of equity or other financing, including but not limited to issuance of bonds and disposal of assets.

Based on the cash flow projections of the Group and having taken into account the available financial resources of the Group and the above measures, the directors of the Company consider that the Group will have sufficient working capital to finance its operations and meet its financial obligations as and when they fall due in the foreseeable future, and accordingly, are satisfied that it is appropriate to prepare the condensed consolidated financial statements on a going concern basis.

Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to classify non-current assets and liabilities as current assets and liabilities respectively. The effects of these potential adjustments have not been reflected in the condensed consolidated financial statements.



3. 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 2015, 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 2016.

Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs")

In the current interim period, the Group has applied for the first time, the following new standards and amendments to HKFRSs issued by HKICPA that are relevant for the preparation of the Group's condensed consolidated financial statements.

HKFRS 14 Regulatory Amendments to HKFRS 11	Deferral Accounts
Amendments to HKAS 1	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKAS 16 and HKAS 38	Disclosure Initiative
Amendments to HKFRSs	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Annual Improvements to HKFRSs 2012–2014 Cycle
	Investment Entities: Applying the Consolidation Exception

The directors of the Company considered the application of the above new standards and revised amendments to HKFRSs in the current period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or on the disclosures set out in these condensed consolidated financial statements.

In the current period, the Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial Instruments ¹
HKFRS 15	Revenue from Contracts with Customers ¹
HKFRS 16	Leases ³
Amendments to HKFRS 15	Clarifications to HKFRS 15 Revenue from Contracts with Customers ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ²
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses ⁴

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

² Effective for annual periods beginning on or after a date to be determined

³ Effective for annual periods beginning on or after 1 January 2019

⁴ Effective for annual periods beginning on or after 1 January 2017

Except as described below, the directors of the Company anticipate that the application of the new standards and amendments to HKFRSs will have no material impact on the results and financial position of the Group.



3. Summary of principal accounting policies *(CONTINUED)*

HKFRS 15 “Revenue from Contracts with Customers”

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 “Revenue”, HKAS 11 “Construction Contracts” and the related interpretations when it becomes effective. The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for goods and services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The directors of the Company anticipates that the application of HKFRS 15 in the future may affect the amounts reported and related disclosures in the Group’s condensed consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

HKFRS 16 “Leases”

HKFRS 16, which upon the effective date will supersede HKAS 17 “Leases”, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-to-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-to-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.



3. Summary of principal accounting policies *(CONTINUED)*

HKFRS 16 “Leases” *(CONTINUED)*

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. HKFRS 16 will be effective for annual periods on or after 1 January 2019 with early application permitted provided that the entity has applied HKFRS 15 “Revenue from Contracts with the Customers” at or before the date of initial application of HKFRS 16. The directors of the Company anticipate that the application of HKFRS 16 in the future may affect the amounts reported and related disclosures in the Group’s condensed consolidated financial statements. However, it is not practicable to provide a reasonable estimate of effect of HKFRS 16 until the Group performs a detailed review.

Other than the above, the directors of the Company anticipate that the application of the other new standards and amendments to HKFRSs also will have no material impact on the results and the financial position of the Group.

4. 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.



4. 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 2016 HK\$'000 (Unaudited)	30 June 2015 HK\$'000 (Unaudited)	30 June 2016 HK\$'000 (Unaudited)	30 June 2015 HK\$'000 (Unaudited)
Continuing operations				
Wastewater treatment and construction services	21,362	9,887	(1,779)	305
Wastewater treatment equipment trading	10,987	12,545	(437)	(6,376)
Total for continuing operations	32,349	22,432	(2,216)	(6,071)
Discontinued operations				
Wastewater treatment and construction service-BOT	-	21,459	-	(51)
Total for discontinued operations	-	21,459	-	(51)
Unallocated items	-	-	-	-
Total for continuing and discontinued operations	32,349	43,891	(2,216)	(6,122)



4. Segment reporting *(CONTINUED)*

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

	Six months ended	
	30 June 2016 HK\$'000 (Unaudited)	30 June 2015 HK\$'000 (Unaudited)
Reportable segment results	(2,216)	(6,071)
Other income and other losses, net	(835)	8,540
Depreciation and amortisation	(1,334)	(336)
Finance costs	(4,645)	(4,103)
Unallocated head office and corporate expenses	(12,839)	(19,666)
	<hr/>	<hr/>
Consolidated loss before taxation attributable to continuing operations	(21,869)	(21,636)
Consolidated loss before taxation attributable to discontinued operations	–	(573)
	<hr/>	<hr/>
	(21,869)	(22,209)
	<hr/>	<hr/>



5. Other income and other gain, net

	Six months ended	
	30 June 2016 HK\$'000 (Unaudited)	30 June 2015 HK\$'000 (Unaudited)
Other income		
Interest income on bank deposits	62	81
Others	–	5
	<hr/>	<hr/>
Attributable to continuing operations	62	86
Attributable to discontinued operations	–	–
	<hr/>	<hr/>
	62	86
	<hr/>	<hr/>
Other gain, net		
Net unrealised (loss)/gain on financial assets at fair value through profit or loss	(30)	68
Gain on deemed disposal of interest in joint ventures	–	3,500
Gain on sale and leaseback of property, plant and equipment	–	299
Loss on disposal of property, plant and equipment	(857)	–
Reversal of impairment loss on amount due from a joint venture	–	4,587
Others	(10)	–
	<hr/>	<hr/>
Attributable to continuing operations	(897)	8,454
Attributable to discontinued operations	–	–
	<hr/>	<hr/>
	(897)	8,454
	<hr/>	<hr/>



6. Loss before taxation

Loss before taxation is arrived at after charging:

	Six months ended	
	30 June 2016 HK\$'000 (Unaudited)	30 June 2015 HK\$'000 (Unaudited)
(a) Finance costs:		
Interest on bank borrowings wholly repayable within five years	4,645	4,103
	4,645	4,103
Attributable to continuing operations	–	695
Attributable to discontinued operations	4,645	4,798
(b) Other items:		
Continuing operations		
Amortisation of intangible assets	933	1,084
Depreciation of property, plant and equipment	401	1,537
Discontinued operations		
Amortisation of operating concessions	–	869
Depreciation of property, plant and equipment	–	110

7. Income tax credit

	Six months ended	
	30 June 2016 HK\$'000 (Unaudited)	30 June 2015 HK\$'000 (Unaudited)
Current tax – PRC corporate income tax	35	–
Deferred tax	(1,106)	(260)
	(1,071)	(260)

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 2016. PRC taxation is charged at the appropriate current rate of taxation ruling in the PRC.



11. Trade and other receivables

	30 June 2016 HK\$'000 (Unaudited)	30 December 2015 HK\$'000 (audited)
Trade receivables	27,059	24,913
Other receivables	40,434	33,072
Prepayments and deposits	2,925	10,883
	70,418	68,868

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

	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (audited)
Within 2 months	7,666	11,102
More than 2 months but within 3 months	5,093	1,638
More than 3 months but less than 12 months	5,077	3,438
More than 12 months	9,223	8,735
	27,059	24,913

12. Cash and cash equivalents

	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (audited)
Cash and bank balances	14,583	25,156
Pledged bank deposits	4,212	4,284
	18,795	29,440



13. 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 2015 and 30 June 2016	2,500,303	62,508

14. Bank loans

	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (audited)
Non-current liabilities		
Bonds	22,750	17,450
Current liabilities		
Portion of bank loans and other borrowings due for repayment within 1 year	68,602	70,210
Total borrowings	91,352	87,660



15. Trade and other payables

	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (audited)
Trade payables	17,576	19,464
Other payables and accruals	43,397	39,375
Amount due to non-controlling interests	819	1,533
Sale deposits received	11,797	16,415
	73,589	76,787

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

	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (audited)
Within 1 month	1,868	6,017
After 1 month but within 3 months	236	4,435
After 3 months but within 6 months	301	178
After 6 months but within 1 year	9,326	2,999
After 1 year	5,845	5,835
	17,576	19,464



16. Operating lease commitments

As lessee

At 30 June 2016, the total future minimum lease payments under non-cancellable operating leases are as follows:

	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (audited)
Within 1 year	2,185	5,368
After 1 year but within 5 years	3,458	2,322
	5,643	7,690

17. Capital commitments

At 30 June 2016 and 31 December 2015, the Group had not commitments in respect of capital expenditure outstanding but not provided for in the consolidated financial statements.

18. 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.

19. 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 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 year are set out below.



19. Discontinued Operations *(Continued)*

	Period from 1.1.2015 to 17.2.2015 HK\$'000
(a) Loss for the year from discontinued operations:	
Revenue	21,459
Cost of sales	(19,624)
Administrative expenses	(199)
	<hr/>
Profit from operations	1,636
Finance costs	(695)
	<hr/>
Profit before tax	941
Income tax credit	68
	<hr/>
	1,009
Gain on disposal of operations	7,515
Income tax expenses	(12,493)
	<hr/>
Loss for the year from discontinued operations (attributable to the owners of the Company)	(3,969)
	<hr/>
(b) Loss for the year from discontinued operation includes the following:	
Interest expenses on bank borrowings	695
Amortisation of operating concessions (included in cost of sales)	869
Depreciation	104
Cost of construction contracts	17,238
Staff costs	100
	<hr/>
(c) Cash flows from discontinued operations:	
	2015 HK\$'000
Net cash inflows from operating activities	40,117
Net cash outflows from investing activities	(19,246)
Net cash outflows from financing activities	(18,114)
	<hr/>
Net cash inflows	2,757
	<hr/>



MANAGEMENT DISCUSSION AND ANALYSIS

Results and Business Review

During the six months ended 30 June 2016, the Group recorded a turnover from continuing operations of approximately HK\$32,349,000, representing an increase of 44.21% as compared to HK\$22,432,000 for the six months ended 30 June 2015. Gross profit from continuing operations for the period increase to approximately HK\$11,016,000 (six months ended 30 June 2015: HK\$7,327,000). The Group's loss from continuing operations attributable to owners of the Company for the period was approximately HK\$20,917,000 (six months ended 30 June 2015: loss HK\$19,792,000).

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

The global economy lacked momentum in the first half of 2016 with macro-economic downturns. However, China will likely avoid a hard landing. With the deepening of environmental law-making of China in recent years, the public awareness of environmental protection has heightened. To reduce water pollution, the State Council has published the "Water Pollution Prevention and Control Action Plan" to tighten up requirements on the prevention of industrial pollution and treatment of urban living waste.

The Group will continue to focus on business and revenue in water treatment business to expand the revenue stream and stable cash flow. The management remains confident that our prudent and deliberate management approach will lead the Group through the challenging times.

On 28 July 2016, the Company had made an announcement. Terms used hereafter shall have the same meaning as defined in the above announcement. The Board considers that the Acquisition would enable the Group to expand its source of revenue to the properties management business and diversify the Group's revenue base.

As mentioned in the annual report of 2015, the Company will keep on working its new page with a prosperity future. The management will still explore other business and investment opportunities with an active manner to put efforts into raising value of the shareholders.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Liquidity

The Group continued to maintain a liquid position. As 30 June 2016, cash and bank balances of the Group were approximately HK\$18,795,000 (31 December 2015: HK\$29,440,000 including those classified as part of a disposal group held for sale).

As at 30 June 2016, the Group had total assets of approximately HK\$131,306,000 (31 December 2015: HK\$151,106,000) and total liabilities of approximately HK\$184,338,000 (31 December 2015: HK\$186,760,000). As at 30 June 2016, the current ratio was 0.67 (31 December 2015: 0.73).

The Group's borrowings and finance lease payables for the period amounted to approximately HK\$95,128,000 (31 December 2015: HK\$93,006,000 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 72.45% (31 December 2015: 61.55%).

Charge on Assets

As at 30 June 2016, the Group's bank deposits of HK\$4,212,000 (31 December 2015: HK\$4,284,000) 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 2016 was 102 (31 December 2015: 110). 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 2016, 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%
		1,264,098,431	50.55%
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 2016, 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 2016, 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 33 of the 2015 Annual Report of the Company respectively.



ADDITIONAL INFORMATION (CONTINUED)

Substantial Shareholders' Interests in Shares

As at 30 June 2016, 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</i>)	1,200,000,000	47.99
Xu Zhong Ping	Interest of a controlled corporation (<i>Note</i>)	1,200,000,000	47.99

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.

Save as disclosed above, as at 30 June 2016, 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.

Proposed Issue of Convertible Bonds Under General Mandate & Termination of the Subscription Agreement in Relation to Issue and Subscription of Convertible Bonds

Reference is made to announcements of the Company dated 29 March 2016 and 19 May 2016. Terms used hereinafter shall have the same meaning as defined in the above announcements.



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.

SUBSEQUENT EVENTS

Reference is made to announcements of the Company dated 28 August 2016 and 29 August 2016. Terms used hereinafter shall have the same meaning as defined in the above announcements.

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 2016 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 18 of the 2015 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 2016.

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 2016.



ADDITIONAL INFORMATION *(CONTINUED)*

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 sincere appreciation to all our management and staff members for their ongoing contribution and hard work. We would also like to thank our shareholders, customers and suppliers as well as our business associates for their continuing support.

By order of the Board

Xu Zhong Ping

Chairman

Hong Kong, 30 August 2016