



China Environmental Technology Holdings Limited

(Incorporated in the Cayman Island with limited liability)

Stock Code: 646



INTERIM REPORT 2018

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CORPORATE INFORMATION

Board of Directors

Executive Directors:

Mr. Xu Zhong Ping (*Chairman*)
Mr. Xu Xiao Yang (*Chief Executive Officer*)
Ms. Hu Yueyue

Non-executive Director:

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

ZHONGHUI ANDA CPA Limited
Unit 701., 7/F., Citicorp Centre
18 Whitfield Road
Causeway Bay, Hong Kong

Legal Advisers

Conyers Dill & Pearman

Principal Share Registrar and Transfer Office

Tricor Services (Cayman Islands) Limited
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Grand Cayman KY1-1001
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Tricor Standard Limited
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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 2018 together with the comparative figures for the corresponding period in 2017.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2018 – Unaudited

		Six months ended 30 June	
		2018	2017
		Unaudited	Unaudited
	Note	HK\$'000	(Restated)
			HK\$'000
Turnover	4	42,736	31,147
Cost of sales		(27,781)	(12,641)
		14,955	18,506
Gross profit			
Other income	5	84	304
Other gain/(losses), net	5	15,401	(38)
Distribution costs		(584)	(454)
Administrative expenses		(44,651)	(31,492)
		(14,795)	(13,174)
Loss from operations			
Finance costs	6a	(7,946)	(2,772)
		(22,741)	(15,946)
Loss before taxation	6		
Income tax credit	7	1,401	(110)
		(21,340)	(16,056)
Loss for the period			
Loss for the period attributable to:			
Owners of the Company		(24,552)	(18,189)
Non-controlling interests		3,212	2,133
		(21,340)	(16,056)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Continued)

For the six months ended 30 June 2018 – Unaudited

	Six months ended 30 June	
	2018	2017
	Unaudited	Unaudited
		(Restated)
Note	HK\$'000	HK\$'000
Other comprehensive income:		
Foreign currency translation reserve reclassified to profit or loss upon disposal of subsidiaries	989	—
Exchange differences on translating of foreign operations	(6,315)	(792)
Total other comprehensive income for the period	(5,326)	(792)
Total comprehensive loss for the period	(26,666)	(16,848)
Total comprehensive loss for the period attributable to:		
Owners of the Company	(30,878)	(18,998)
Non-controlling interests	4,212	2,150
	(26,666)	(16,848)
Loss per share:		
Basic (HK cents)	(0.67)	(0.50)

The notes on pages 9 to 20 form part of this interim report.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION*At 30 June 2018 – Unaudited*

	At 30 June 2018 Unaudited HK\$'000	At 31 December 2017 (Restated) HK\$'000	At 1 January 2017 (Restated) HK\$'000
Note			
Non-current assets			
Property, plant and equipment	27,861	11,776	3,484
Intangible assets	71,594	79,645	3,927
Deposits paid for property, plant and equipment	12,152	12,152	—
Goodwill	100,604	100,604	—
Interests in associates	—	—	—
	<u>212,211</u>	<u>204,177</u>	<u>7,411</u>
Current assets			
Inventories	9,873	10,914	7,878
Trade and other receivables	11 141,249	117,248	60,889
Contract assets	224	695	—
Financial assets at fair value through profit or loss	—	—	93
Restricted and pledged bank deposits	—	—	755
Bank and cash balances	12 73,247	83,379	95,363
	<u>224,593</u>	<u>212,236</u>	<u>164,978</u>
Current liabilities			
Trade and other payables	15 93,589	157,619	66,006
Contract liabilities	2,045	11,033	4,412
Current tax liabilities	20,970	20,744	11,932
Borrowings	14 61,091	65,571	61,013
Deferred revenue	—	—	221
Finance lease payables	—	—	1,736
	<u>177,695</u>	<u>254,967</u>	<u>145,320</u>
Net current assets / (liabilities)	<u>46,898</u>	<u>(42,731)</u>	<u>19,658</u>
Total assets less current liabilities	<u>259,109</u>	<u>161,446</u>	<u>27,069</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION*(Continued)**At 30 June 2018 – Unaudited*

	Note	At 30 June 2018 Unaudited HK\$'000	At 31 December 2017 (Restated) HK\$'000	At 1 January 2017 (Restated) HK\$'000
Non-current liabilities				
Borrowings	14	22,750	22,750	22,750
Convertible bonds	17	85,214	—	—
Deferred tax liabilities		11,646	13,030	657
		<u>119,610</u>	<u>35,780</u>	<u>23,407</u>
NET ASSETS		<u>139,499</u>	<u>125,666</u>	<u>3,662</u>
Capital and reserves				
Share capital	13	91,259	91,259	75,009
Reserves		(16,526)	(10,524)	(64,377)
Equity attributable to owners of the Company		74,733	80,735	10,632
Non-controlling interests		64,766	44,931	(6,970)
TOTAL EQUITY		<u>139,499</u>	<u>125,666</u>	<u>3,662</u>

The notes on pages 9 to 20 form part of this interim report.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018 – Unaudited

	Attributable to the owners of the Company							Total	Non-controlling interest	Total equity
	Share capital	Share premium	Contributed surplus	Exchange reserve	Convertible bond equity reserve	Other reserves	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 2017 (audited)	75,009	243,661	(180)	11,295	—	7,442	(325,189)	12,038	(6,970)	5,068
Effect of changes in account policies	—	—	—	—	—	—	(1,406)	(1,406)	—	(1,406)
At 1 January 2017, as restated	75,009	243,661	(180)	11,295	—	7,442	(326,595)	10,632	(6,970)	3,662
Shares issued for the period	16,250	159,250	—	—	—	—	—	175,500	—	175,500
Non-controlling interests arising from acquisition of subsidiaries	—	—	—	—	—	—	—	—	197,383	197,383
Loss for the period, as restated	—	—	—	—	—	—	(18,189)	(18,189)	2,133	(16,056)
Other comprehensive income	—	—	—	(809)	—	—	—	(809)	17	(792)
Balance at 30 June 2017 (unaudited)	91,259	402,911	(180)	10,486	—	7,442	(344,784)	167,134	192,563	359,697
Balance at 1 January 2018 (audited)	91,259	370,411	(180)	2,544	—	7,442	(386,024)	85,452	44,931	130,383
Effect of changes in account policies	—	—	—	—	—	—	(4,717)	(4,717)	—	(4,717)
At 1 January 2018, as restated	91,259	370,411	(180)	2,544	—	7,442	(390,741)	80,735	44,931	125,666
Non-controlling interests for the disposal of subsidiaries	—	—	—	—	—	—	—	—	15,623	15,623
Loss for the period	—	—	—	—	—	—	(24,552)	(24,552)	3,212	(21,340)
Other comprehensive income	—	—	—	(6,364)	—	—	—	(6,364)	1,000	(5,364)
Issue of convertible bonds	—	—	—	—	24,914	—	—	24,914	—	24,914
Balance at 30 June 2018 (unaudited)	91,259	370,411	(180)	(3,820)	24,914	7,442	(415,293)	74,733	64,766	139,499

The notes on pages 9 to 20 form part of this interim report.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018 – Unaudited

	Note	Six months ended 30 June	
		2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
Cash used in operations		(84,379)	(28,321)
Tax paid		—	(402)
Net cash used in operating activities		(84,379)	(28,723)
Net cash (used in)/generated from investing activities		(17,187)	(200,088)
Net cash generated from/(used in) financing activities		96,522	170,771
Decrease in cash and cash equivalents		(5,044)	(58,040)
Cash and cash equivalents at beginning of period	12	83,379	96,118
Cash and cash equivalents from acquisition of subsidiaries		—	18,887
Cash and cash equivalents for disposal of subsidiaries		(42)	—
Effect on foreign exchange rate changes		(5,046)	432
Cash and cash equivalents at end of period	12	73,247	57,397
Analysis of the balances of cash and cash equivalents			
Cash and cash equivalents		73,247	57,397
	12	73,247	57,397

The notes on pages 9 to 20 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 2017.

2. Basis of Preparation

These condensed financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”).

These condensed financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2017. The accounting policies and methods of computation used in the preparation of these condensed financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2017 except as stated below.

(a) *Financial assets*

Financial assets are recognised and derecognised on a trade date basis where the purchase or sale of an asset is under a contract whose terms require delivery of the asset within the timeframe established by the market concerned, and are initially recognised at fair value, plus directly attributable transaction costs except in the case of investments at fair value through profit or loss. Transaction costs directly attributable to the acquisition of investments at fair value through profit or loss are recognised immediately in profit or loss.

2. **Basis of Preparation** *(Continued)*

(a) Financial assets *(Continued)*

Financial assets at amortised cost

Financial assets (including trade and other receivables) are classified under this category if they satisfy both of the following conditions:

- the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

They are subsequently measured at amortised cost using the effective interest method less loss allowance for expected credit losses.

(b) Loss allowances for expected credit losses

The Group recognises loss allowances for expected credit losses on financial assets at amortised cost and contract assets. Expected credit losses are the weighted average of credit losses with the respective risks of a default occurring as the weights.

At the end of each reporting period, the Group measures the loss allowance for a financial instrument at an amount equal to the expected credit losses that result from all possible default events over the expected life of that financial instrument for trade receivables and contract assets.

The amount of expected credit losses or reversal to adjust the loss allowance at the end of the reporting period to the required amount is recognised in profit or loss as an impairment gain or loss.

3. Adoption of New and Revised Hong Kong Financial Reporting Standards

In the current period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) that are relevant to its operations and effective for its accounting year beginning on 1 January 2018 and early adopted HKFRS15. HKFRSs comprise Hong Kong Financial Reporting Standards (“HKFRS”), Hong Kong Accounting Standards (“HKAS”) and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group’s accounting policies, presentation of the Group’s financial statements and amounts reported for the current year and prior years except as stated below.

HKFRS 15 “Revenue from Contracts with Customers”

Revenue of the Group’s wastewater treatment equipment contract was previously recognised using the percentage of completion method. Under HKFRS 15, such contracts do not meet the conditions of recognising the revenue over time. Revenue of such contracts is now recognised at a point in time when control of the products is transferred to the customers.

HKFRS 15 has been applied retrospectively and resulted in changes in the consolidated amounts reported in the financial statements as follows:

	HK\$’000
At 1 January 2017:	
Increase accumulated losses	1,406
For the 6 months ended 30 June 2017:	
Increase in revenue	5,520
Increase in cost of sales	2,959
Increase in profit for the year	2,561
Increase in Earnings per share (HK cents)	0.07
At 1 January 2018:	
Increased in accumulated losses	4,717

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The application of these new HKFRSs will not have material impact on the financial statements 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 three 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. Fertility medical treatment services

This segment engages in the provision of fertility medical treatment and fertility-related medical services.

(a) Segment results

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

	Segment revenue		Segment profit (loss)	
	Six months ended		Six months ended	
	30 June 2018 HK\$'000 (Unaudited)	30 June 2017 HK\$'000 (Unaudited) (Restated)	30 June 2018 HK\$'000 (Unaudited)	30 June 2017 HK\$'000 (Unaudited) (Restated)
Wastewater treatment and construction services	—	872	(4,666)	(4,616)
Wastewater treatment equipment trading	25,269	11,285	4,510	408
Fertility medical treatment services	17,467	18,990	(16,559)	4,369
	<u>42,736</u>	<u>31,147</u>	<u>(16,715)</u>	<u>161</u>

4. **Segment reporting** *(Continued)***(b) Reconciliation of reportable segment results to loss before taxation**

	Six months ended	
	30 June 2018 HK\$'000 (Unaudited)	30 June 2017 HK\$'000 (Unaudited) (Restated)
Reportable segment results	(16,715)	161
Other income and other losses, net	15,485	266
Depreciation and amortisation	(8,971)	(5,660)
Finance costs	(7,946)	(2,772)
Unallocated head office and corporate expenses	(4,594)	(7,941)
	(22,741)	(15,946)
Loss before taxation	(22,741)	(15,946)

5. **Other income and other loss, net**

	Note	Six months ended	
		30 June 2018 HK\$'000 (Unaudited)	30 June 2017 HK\$'000 (Unaudited) (Restated)
Other income			
Interest income on bank deposits		84	304
Other gain, net			
Net unrealised loss on financial assets at fair value through profit or loss		—	(38)
Gain on disposal of subsidiaries	18	15,272	—
Others		129	—
		15,401	(38)

6. Loss before taxation

Loss before taxation is arrived at after charging:

	Six months ended	
	30 June 2018 HK\$'000 (Unaudited)	30 June 2017 HK\$'000 (Unaudited) (Restated)
(a) Finance costs:		
Interest on bank borrowings wholly repayable within five years	3,710	1,982
Interest on bonds	790	790
Imputed interest on convertible bonds	3,446	—
	<u>7,946</u>	<u>2,772</u>
(b) Other items:		
Amortisation of intangible assets	8,051	5,226
Depreciation of property, plant and equipment	920	434
	<u>8,971</u>	<u>5,660</u>

7. Income tax credit

	Six months ended	
	30 June 2018 HK\$'000 (Unaudited)	30 June 2017 HK\$'000 (Unaudited) (Restated)
Current tax – PRC corporate income tax	—	298
Deferred tax	(1,401)	(188)
	<u>(1,401)</u>	<u>110</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 2018. PRC taxation is charged at the appropriate current rate of taxation ruling in the PRC.

8. Interim dividend

The Directors do not recommend any interim dividend for the six months ended 30 June 2018 (30 June 2017: Nil).

9. 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	30 June
	2018	2017
	HK\$'000	HK\$'000
		(Restated)
Attributable to the owners of the Company	<u>(24,552)</u>	<u>(18,189)</u>
	Number of shares	
	'000	'000
Weighted average number of ordinary shares in issue	<u>3,650,359</u>	<u>3,650,359</u>

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

10. Movements in property, plant and equipment and intangible assets

During the six months ended 30 June 2018, the Group disposed property, plant and equipment at carrying value of HK\$236,000 and disposed property, plant and equipment at carrying value of HK\$343,000 by disposal of subsidiaries.

In addition, the Group spent HK\$17,507,000 (six months ended 30 June 2017: HK\$1,166,000) on property, plant and equipment during the period.

11. Trade and other receivables

	30 June	30 December
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Restated)
Trade and contract receivables	35,707	35,570
Other receivables	54,870	71,156
Prepayments and deposits	50,187	10,106
Amounts due from non-controlling interests	<u>485</u>	<u>416</u>
	<u>141,249</u>	<u>117,248</u>

11. Trade and other receivables *(Continued)*

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

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Restated)
Within 2 months	12,319	34,006
More than 2 months but within 3 months	8,186	306
More than 3 months but less than 12 months	13,015	1,258
More than 12 months	2,187	—
	<u>35,707</u>	<u>35,570</u>

12. Bank and cash balances

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Restated)
Bank and cash balances	<u>73,247</u>	<u>83,379</u>

13. Share capital

	No. of shares '000	Amount HK\$'000
Authorised:		
Ordinary shares of HK\$0.025 each	<u>8,000,000</u>	<u>200,000</u>
Issued and fully paid:		
Ordinary shares		
At 31 December 2017	<u>3,650,359</u>	<u>91,259</u>
At 30 June 2018	<u>3,650,359</u>	<u>91,259</u>

14. Borrowings

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Restated)
Non-current liabilities		
Bonds	22,750	22,750
Current liabilities		
Portion of bank loans and other borrowings due for repayment within 1 year	61,091	65,571
Total borrowings	83,841	88,321

15. Trade and other payables

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Restated)
Trade payables	20,409	26,629
Other payables of convertible bonds	—	54,530
Other payables and accruals	61,257	66,555
Convertible bonds interest payable	2,118	—
Amount due to non-controlling interests	3,550	1,459
Sale deposits received	6,255	8,446
	93,589	157,619

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

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Restated)
Within 1 month	4,346	14,563
After 1 month but within 3 months	440	489
After 3 months but within 6 months	901	887
After 6 months but within 1 year	13,145	3,344
After 1 year	1,577	10,780
	20,409	30,063

16. Operating lease commitments

As lessee

At 30 June 2018, the total future minimum lease payments under non-cancellable operating leases are as follows:

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Restated)
Within 1 year	27,254	27,254
After 1 year but within 5 years	112,575	112,575
Over 5 year	295,457	309,084
	435,286	448,913

17. Convertible bonds

On 15 January 2018 and 19 June 2018, the Company issued the Convertible Bonds in an aggregate principal amount of US\$ 7,000,000 (equivalent to HK\$ 54,600,000) and US\$ 7,000,000 (equivalent to HK\$54,600,000) respectively, both Convertible Bonds with a coupon rate 8% to the Controlling Shareholder, payable in arrear in every 12-month period from the issue date of the respective Bonds. Both Convertible Bonds will mature being the third anniversary from the issue date. Both conversion price shall initially be HK\$0.26.

The Convertible Bonds recognized in the condensed consolidated statement of financial position had been split between liability element and equity component, and are calculated as follows:

	Liability Component HK\$'000	Equity component HK\$'000	Total HK\$'000
At 15 January 2018	39,165	15,435	54,600
At 19 June 2018	45,019	9,581	54,600
Transaction costs	(298)	(102)	(400)
Issue of Convertible Bonds	83,886	24,914	108,800
Imputed interest expense	3,446	—	3,446
Interest payable	(2,118)	—	(2,118)
At 30 June 2018	85,214	24,914	110,128

17. Convertible bonds *(Continued)*

The interest charged for the period are calculated by applying an effective interest rate of 17.73 % for the Convertible Bonds issued on 15 January 2018 and the effective interest rate of 14.80% for the Convertible Bonds issued on 19 June 2018 to the liability component for 5.5 month period and 0.4 month period respectively since the bonds were issued.

The Directors estimate the fair value of the equity and liability components of the convertible bonds at the issuance date with reference to the independent valuation performed by an independent valuer, CHFT Advisory And Appraisal Limited by discounting the future cash flows at the specific discount rate under level 2 fair value measurement.

18. Disposal of subsidiaries

On 6 June 2018, the Group disposed 51% of the issued share capital of Shenzhen Huaxin Environmental Technology Engineering Company Limited and its wholly-owned subsidiary, Huan Chezhou CETH Environmental Technology Company Limited ("**Huaxin Group**"), a subsidiary of the Company, at a consideration of RMB1 (equivalent HK\$1.22).

The fair value of the identifiable assets and liabilities of Huaxin Group disposed as at its date of disposal is as follows:

	Note	2018 HK\$'000
Net liabilities at the date of disposal were as follows		
Property, Plant and equipment		343
Bank and cash balances		42
Track and other receivable		2,312
Amount due to the Group		(5,305)
Trade and other payable		(23,655)
Borrowings		(5,621)
		<u>(31,884)</u>
Net liabilities disposal of		(31,884)
Release of foreign currency translation reserve		989
Non-controlling interest		15,623
Gain on disposal of Huaxin Group	5	15,272
		<u>—</u>
Consideration		<u>—</u>
Net cash outflow arising on disposal:		
Cash and cash equivalents disposed of		<u>—</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Results and Business Review

During the six months ended 30 June 2018, the Group recorded a turnover of approximately HK\$42,736,000, representing an increase of 37.21% as compared to HK\$31,147,000 for the six months ended 30 June 2017 as restated. Gross profit for the period decreased to approximately HK\$14,955,000 (six months ended 30 June 2017 as restated: HK\$18,506,000). Gross profit ratio for the period decreased to 34.99% (six months ended 30 June 2017 as restated: 59.41%). The decrease of gross profit ratio was in line with the decrease in segment of fertility medical treatment with gross profit ratio 40.14% (six months ended 30 June 2017: 62.21%). The Group's loss attributable to owners of the Company for the period was approximately HK\$24,552,000 (six months ended 30 June 2017 as restated: loss HK\$18,189,000).

The current business of the environmental protection business segment is mainly carried out by Beijing Jingrui Kemai Water Purification Technology Company Limited ("**Beijing Jingrui Kemai**") concentrated in the field of municipal sewage and black odor water treatment. Compared with the same period of the first half of 2017, the environmental protection business sector in the first half of 2018 increased the contracted value by 60% year-on-year and maintained profitability in the first half of the year. At present, the company has a large number of reserve projects, and it is expected that the annual business will increase significantly year-on-year.

During the period under review, the company has invested heavily in the expansion of in-vitro fertilization medical treatment services in the early stages of preparation, especially in medical projects established in Beijing and Singapore. Therefore, the relevant administrative expenses in the first half of 2018 are concentrated.

Outlook

For Wastewater treatment

The National Environmental Protection Conference held in mid-May this year clarified the overall goals and principles of the state to achieve comprehensive protection of the green mountains and green water environment, and implement a lifelong responsibility system for environmental protection. The country's investment in environmental protection has never been more important. For Beijing Jingrui Kemai, which always adheres to technological innovation and has high-standard sewage treatment technology, the opportunity is greater than the challenge. We believe that the environmental protection business with core technology will achieve steady growth.

For Fertility medical

In the first half of 2018, the Group had successfully raised funds to develop its businesses by issuance of Convertible Bonds.

Some funds will be used as (1) towards the initial working capital for Pacific Fertility Institutes (Singapore) Pte. Ltd; (2) towards the initial working capital for 北京醫諾婦兒醫院 (Beijing INNOMED Women's and Children's Hospital *); (3) towards future medical investment projects related to fertility medical treatment services.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Outlook *(Continued)*

For Fertility medical *(Continued)*

Pacific Fertility Institutes Holding Company Limited ("PFI") continues to advance its resources and also expanded its network of development of medical information system and healthcare management consulting, provision of health consultancy services, development of medical technology, provision of medical services and hospital management in order to enrich and integrate its domestic and international medical synergy.

PFI has established reproductive centers in Saipan and Singapore, as well as international joint service centers including a cooperative referral center in Los Angeles, Hong Kong, Beijing, Shanghai, Guangzhou, Shenyang and other cities. PFI aims to be the largest reproductive medicine chains in the world.

Liquidity

The Group continued to maintain a liquid position. As 30 June 2018, cash and bank balances of the Group were approximately HK\$73,247,000 (31 December 2017: HK\$83,379,000).

As at 30 June 2018, the Group had total assets of approximately HK\$436,804,000 (31 December 2017 as restated: HK\$416,413,000) and total liabilities of approximately HK\$297,305,000 (31 December 2017 as restated: HK\$290,747,000). As at 30 June 2018, the current ratio was 1.26 (31 December 2017 as restated: 0.83).

The Group's borrowings for the period amounted to approximately HK\$169,055,000 (31 December 2017: HK\$88,321,000). The Group's borrowings are denominated in Renminbi and US dollars, mainly comprise term loans bearing fixed and variable interest rates and an entrusted loan at fixed interest rate and convertible bonds at fixed rate. The Group's gearing ratio, being the ratio of the total debts to total assets, was 38.70% (31 December 2017 as restated: 21.21%).

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 2018 was 106 (31 December 2017: 105). 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 2018, 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 (note)	Interest held by a controlled corporation	1,200,000,000	32.87%
		Beneficial owner	44,098,431
		1,244,098,431	34.08%
Xu Xiao Yang	Beneficial owner	20,000,000	0.55%
Hu Yueyeu	Beneficial owner	8,000,000	0.22%

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 2018, 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 2018, 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 2017 Annual Report of the Company respectively.

ADDITIONAL INFORMATION *(Continued)***Substantial Shareholders' Interests in Shares**

As at 30 June 2018, 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	32.87
Classy Jade Limited	Interest of a controlled corporation (Note 1)	1,200,000,000	32.87
Xu Zhong Ping	Interest of a controlled corporation (Note 1)	1,200,000,000	32.87
Pacific Fertility Institutes Holdings Company Limited ("PFI")	Beneficial owner	720,608,000	19.74
Options Inc.	Interest of a controlled corporation (Note 2)	720,608,000	19.74
Leon Li	Interest of a controlled corporation (Note 2)	720,608,000	19.74

Note:

- (1) 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.
- (2) Options Inc. owns 100% of the issued share capital of PFI. Leon Li is the sole shareholder of Options Inc. and was therefore deemed to be interested in the said 720,608,000 shares held by PFI under Part XV of the SFO.

Save as disclosed above, as at 30 June 2018, 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.

Important Event during the period

Reference is made to announcement of the Company dated 16 May 2018. Terms used hereinafter shall have the same meaning as defined in the above announcement.

The Board has considered various ways of raising funds to develop the businesses of the Group and considers that the issuance of the Convertible Bonds represents a suitable opportunity to raise funds having considered the recent market conditions which represent an opportunity for the Company to enhance its working capital, strengthen its capital base and financial position and broaden the shareholders' base.

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 2018 except for the code provisions in respect of A.4.1. Details of the deviations from code provisions A.4.1 in respect of service term of the non-executive Directors is explained in the section "Corporate Governance" on pages 17 of the 2017 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 2018.

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 2018.

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.

By order of the Board
China Environmental Technology Holdings Limited
Xu Zhong Ping
Chairman

Hong Kong, 31 August 2018