CETH

China Environmental Technology Holdings Limited

(Incorporated in the Cayman Island with limited liability)

Stock Code: 646

INTERIM REPORT 2019

CONTENTS

CORPORATE INFORMATION

Board of Directors

Executive Directors:
Mr. Xu Zhong Ping *(Chairman)*
Ms. Hu Yueyue
Mr. Yang Baodong

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

Withers LLP
Conyers Dill & Pearman

Principal Share Registrar and Transfer Office

Tricor Services (Cayman Islands) Limited
P.O. Box 10008
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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

Hang Seng Bank Limited

Company Website

www.cethl.com

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2019 – Unaudited

	Note	Six months ended 30 June 2019 (Unaudited) HK$'000	2018 (Unaudited) HK$'000
Turnover	4	**21,623**	25,268
Cost of sales		**(18,490)**	(17,324)
Gross profit		**3,133**	7,944
Share results of associates		**—**	1,767
Other income	5	**10**	84
Other gain/(losses), net	5	**18,047**	15,272
Distribution costs		**(764)**	(584)
Legal and professional fees		**(8,913)**	(1,610)
Administrative expenses		**(23,839)**	(40,662)
Loss from operations		**(12,326)**	(17,789)
Finance costs	6a	**(17,753)**	(7,946)
Loss before taxation	6	**(30,079)**	(25,735)
Income tax (expenses)/credit	7	**(486)**	190
Loss for the period		**(30,565)**	(25,545)
Loss for the period attributable to:			
Owners of the Company		**(30,339)**	(24,552)
Non-controlling interests		**(226)**	(993)
		(30,565)	(25,545)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Continued)

For the six months ended 30 June 2019 – Unaudited

	Note	Six months ended 30 June	
		2019	2018
		(Unaudited)	(Unaudited)
		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		**3,558**	(6,315)
Total other comprehensive income/(loss) for the period		**3,558**	(5,326)
Total comprehensive loss for the period		**(27,007)**	(30,871)
Total comprehensive loss for the period attributable to:			
Owners of the Company		**(26,820)**	(30,878)
Non-controlling interests		**(187)**	7
		(27,007)	(30,871)
Loss per share:			
Basic (HK cents)	9	**(0.83)**	(0.67)

The notes on pages 9 to 23 form part of this interim report.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019 – Unaudited

	Note	**At 30 June 2019 (Unaudited) HK$'000**	At 31 December 2018 (Audited) HK$'000
Non-current assets			
Property, plant and equipment		**2,074**	2,400
Intangible assets		**1,076**	1,169
Construction in progress		**63,038**	62,313
Prepayment for construction in progress		**14,372**	14,233
Right-of-use assets	3	**194,583**	—
Goodwill		**2,937**	2,937
Interests in associates		**—**	—
		278,080	83,052
Current assets			
Inventories		**3,167**	561
Trade and other receivables	11	**41,634**	38,181
Contract assets and contract costs		**17,329**	19,582
Restricted and pledged bank deposits	12	**2**	343
Bank and cash balances	12	**12,909**	4,981
		75,041	63,648
Current liabilities			
Trade and other payables	15	**212,467**	213,921
Contract liabilities		**7,440**	14,060
Current tax liabilities		**1,122**	636
Borrowings	14	**48,495**	76,678
Lease liabilities	3	**16,836**	—
		286,360	305,295
Net current liabilities		**(211,319)**	(241,647)
Total assets less current liabilities		**66,761**	(158,595)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Continued)

At 30 June 2019 – Unaudited

	Note	At 30 June 2019 (Unaudited) HK$'000	At 31 December 2018 (Audited) HK$'000
Non-current liablities			
Borrowings	14	**72,727**	3,000
Convertible bonds	17	**45,565**	46,113
Lease liabilities	3	**183,184**	—
		301,476	49,113
NET LIABLITIES		**(234,715)**	(207,708)
Capital and reserves			
Share capital	13	**91,259**	91,259
Reserves		**(328,318)**	(301,498)
Equity attributable to owners of the Company		**(237,059)**	(210,239)
Non-controlling interests		**2,344**	2,531
TOTAL DEFICIT		**(234,715)**	(207,708)

The notes on pages 9 to 23 form part of this interim report.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019 – Unaudited

	Attributable to the owners of the Company									
	Share capital HK$'000	Share premium HK$'000	Contributed surplus HK$'000	Exchange reserve HK$'000	Convertible bond equity reserve HK$'000	Other reserves HK$'000	Accumulated Losses HK$'000	Total HK$'000	Non-controlling interest HK$'000	Total equity HK$'000
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 decrease from disposal of subsidiaries	–	–	–	–	–	–	–	–	15,623	15,623
Deconsolidation of subsidiaries	–	–	–	(38)	–	–	–	(38)	(38,051)	(38,089)
Loss for the period	–	–	–	–	–	–	(24,552)	(24,552)	(993)	(25,545)
Other comprehensive income	–	–	–	(6,326)	–	–	–	(6,326)	1,000	(5,326)
Issue of convertible bonds	–	–	–	–	24,914[1]	–	–	24,914[1]	–	24,914[1]
Balance at 30 June 2018 (unaudited)	**91,259**	**370,411**	**(180)**	**(3,820)**	**24,914[1]**	**7,442**	**(415,293)**	**74,733**	**22,510**	**97,243[1]**
Balance at 1 January 2019 (audited)	91,259	370,411	(180)	6,190	15,350	7,442	(700,711)	(210,239)	2,531	(207,708)
Loss for the period	–	–	–	–	–	–	(30,339)	(30,339)	(226)	(30,565)
Other comprehensive income	–	–	–	3,519	–	–	–	3,519	39	3,558
Balance at 30 June 2019 (unaudited)	91,259	370,411	(180)	9,709	15,350	7,442	(731,050)	(237,059)	2,344	(234,715)

Note 1: This amount included approximately HK$9,564,000 from the issuance of convertible bond on 19 June 2018, which subsequently declared void.

The notes on pages 9 to 23 form part of this interim report.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019 – Unaudited

		Six months ended 30 June	
		2019	2018
		(Unaudited)	(Unaudited)
	Note	**HK$'000**	HK$'000
Cash used in operations		**(18,701)**	(84,379)
Tax paid		**—**	—
Net cash used in operating activities		**(18,701)**	(84,379)
Net cash used in investing activities		**(385)**	(18,207)
Net cash generated from financing activities		**27,057**	96,484
Increase/decrease in cash and cash equivalents		**7,971**	(6,102)
Cash and cash equivalents at beginning of period	12	**4,981**	83,379
Effect on foreign exchange rate changes		**(43)**	(5,008)
Cash and cash equivalents at end of period	12	**12,909**	72,269
Analysis of the balances of cash and cash equivalents			
Bank and cash balances		**12,909**	72,269

The notes on pages 9 to 23 form part of this interim report.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. General information

China Environmental Technology Holdings Limited (the "Company") is a limited liability company incorporated in the Cayman Islands on 31 August 2001 and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office and principal place of business of the Company are located at P.O. Box 10008, Willow House, Cricket Square, Grand Cayman KY1-1001, Cayman Islands and Unit 1003-5, 10th Floor, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong respectively.

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are principally engaged in the wastewater treatment equipment trading and health related products and services in Mainland China.

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 2018. 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 2018 except as stated below.

(a) Going Concern

The Group incurred loss attributable to owners of the Company of approximately HK$30,339,000 for the six months ended 30 June 2019 and the Group had net current liabilities and net liabilities of approximately HK$211,319,000 and approximately HK$234,715,000, respectively as at 30 June 2019. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern. Therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

Based on the cash flow projection of the Group and having taken into account the available financial resources of the Group and the above measures, the Directors 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 consolidated financial statements on a going concern basis.

2. Basis of Preparation *(Continued)*

(a) ***Going Concern*** *(Continued)*

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 these consolidated financial statements.

(b) ***Leases***

The Group as lessee

Leases are recognised as right-of-use assets and corresponding lease liabilities when the leased assets are available for use by the Group. Right-of-use assets are stated at cost less accumulated depreciation and impairment losses. Depreciation of right-of-use assets is calculated at rates to write off their cost over the shorter of the asset's useful life and the lease term on a straight-line basis. The principal annual rates are as follows:

Land and buildings 5% - 20%

Right-of-use assets are measured at cost comprising the amount of the initial measurement of the lease liabilities, lease payments prepaid, initial direct costs and the restoration costs. Lease liabilities include the net present value of the lease payments discounted using the interest rate implicit in the lease if that rate can be determined, or otherwise the Group's incremental borrowing rate. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to consolidated profit or loss over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the lease liability.

Payments associated with short-term leases and leases of low-value assets are recognised as expenses in consolidated profit or loss on a straight-line basis over the lease terms. Short-term leases are leases with an initial lease term of 12 months or less. Low-value assets are assets of value below US$ 5,000.

(c) ***Deconsolidation of subsidiaries***

The consolidated financial statements have been prepared based on the books and records maintained by the Group. On 22 February 2019, provisional judicial managers were appointed by the High Count of Singapore to Pacific Fertility Institutes (Singapore) Pte. Limited ("PFI Singapore"). Therefore, the Directors considered that the control over PFI Singapore had been lost since the appointment of provisional judicial managers. The results, assets, liabilities and cash flows of PFI Singapore were deconsolidated from the consolidated financial statements of the Group since the appointment of provisional judicial managers.

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 HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 January 2019. 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 period and prior years except as stated below.

The following explains the impact of the adoption of HKFRS 16 "Leases" ("HKFRS 16") on the Group's financial information and the new accounting policies that have been applied from 1 January 2019, where they are different to those applied in prior periods.

The Group has adopted HKFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening condensed consolidated statement of financial position on 1 January 2019.

Adjustments recognised on adoption of HKFRS 16

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 8%.

3. Adoption of New and Revised Hong Kong Financial Reporting Standards *(Continued)*

Adjustments recognised on adoption of HKFRS 16 *(Continued)*

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

— the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;

— reliance on previous assessments on whether leases are onerous;

— the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and

— the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 and HKFRIC 4 Determining whether an Arrangement contains a Lease.

3. Adoption of New and Revised Hong Kong Financial Reporting Standards *(Continued)*

Adjustments recognised on adoption of HKFRS 16 *(Continued)*

As a lessee, the Group's leases are mainly rentals of offices and commercial building. The right-of-use assets were measured at the amount equal to the lease liability and there were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application. The carrying amounts of the Group's right-of-use assets and lease liabilities, and the movement during the period are as follows:

	Right-of-use assets (Unaudited) HK$'000	Lease liabilities (Unaudited) HK$'000
At 1 January 2019	**238,747**	(238,747)
Depreciation charge	**(6,740)**	—
Interest expense	**—**	(8,098)
Payments	**—**	8,167
Deconsolidation of a subsidiary	**(37,424)**	38,658
	194,583	(200,020)
Analysed for reporting purpose:		
Non-current	**194,583**	(16,836)
Current	**—**	(183,184)
	194,583	(200,020)

The Group has not applied the new and revised HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new and revised HKFRSs but is not yet in a position to state whether these new and revised HKFRSs would have a material impact on its results of operations and financial position.

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 equipment trading

   This segment engages in the trading of wastewater treatment facilities and machinery and provision for related services.

2. Health related products and 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 Six months ended		Segment profit (loss) Six months ended	
	30 June 2019 HK$'000 (Unaudited)	30 June 2018 HK$'000 (Unaudited)	**30 June 2019 HK$'000 (Unaudited)**	30 June 2018 HK$'000 (Unaudited)
Wastewater treatment equipment trading	**21,145**	25,268	**(5,520)**	2,378
Health related products and services	**478**	—	**(3,577)**	(20,671)
	21,623	25,268	**(9,097)**	(18,293)

4. Segment reporting *(Continued)*

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

	Six months ended 30 June 2019 HK$'000 (Unaudited)	Six months ended 30 June 2018 HK$'000 (Unaudited)
Reportable segment results	**(9,097)**	(18,293)
Share results of associates	**—**	1,767
Other income and other losses, net	**18,057**	15,356
Depreciation and amortisation	**(7,044)**	(8,971)
Finance costs	**(17,753)**	(7,946)
Unallocated head office and corporate expenses	**(14,242)**	(7,648)
Loss before taxation	**(30,079)**	(25,735)

5. Other income and other gain/(loss), net

	Note	Six months ended 30 June 2019 HK$'000 (Unaudited)	Six months ended 30 June 2018 HK$'000 (Unaudited)
Other income			
Interest income on bank deposits		**10**	84
Other gain/(loss), net			
Gain on disposal of subsidiaries	18	**18,063**	15,272
Others		**(16)**	—
		18,047	15,272

6. Loss before taxation

Loss before taxation is arrived at after charging:

	Six months ended	
	30 June 2019 HK$'000 (Unaudited)	30 June 2018 HK$'000 (Unaudited)
(a) Finance costs:		
Interest on bank borrowings wholly repayable within five years	**3,689**	3,710
Interest on bonds	**753**	790
Imputed interest on convertible bonds	**3,820**	3,446
Other loan interests	**1,393**	—
Finance cost of lease liabilities	**8,098**	—
	17,753	7,946
(b) Other items:		
Amortisation of intangible assets	**93**	8,051
Depreciation of property, plant and equipment	**211**	920
Depreciation of right-of-use assets	**6,740**	—

7. Income tax (expenses)/credit

	Six months ended	
	30 June 2019 HK$'000 (Unaudited)	30 June 2018 HK$'000 (Unaudited)
Current tax – PRC corporate income tax	**(486)**	—
Deferred tax	**—**	190
	(486)	190

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 2019. 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 2019 (30 June 2018: 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 2019 HK$'000 (Unaudited)	30 June 2018 HK$'000 (Unaudited)
Attributable to the owners of the Company	**(30,339)**	(24,552)

	Number of shares	
	'000	'000
Weighted average number of ordinary shares in issue	**3,650,359**	3,650,359

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

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

The Group spent HK$115,000 (six months ended 30 June 2018: HK$17,507,000) on property, plant and equipment during the period.

11. Trade and other receivables

	30 June 2019 HK$'000 (Unaudited)	30 December 2018 HK$'000 (Audited)
Trade receivables	14,944	20,779
Less: allowance for doubtful debts	(4,925)	(4,898)
	10,019	15,881
Other receivables	13,377	13,850
Prepayments and deposits	18,238	8,150
Amounts due from non-controlling interests	—	300
	41,634	38,181

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

	30 June 2019 HK$'000 (Unaudited)	30 December 2018 HK$'000 (Audited)
Within 2 months	2,846	6,800
More than 2 months but within 3 months	—	—
More than 3 months but less than 12 months	6,569	3,615
More than 12 months	604	5,466
	10,019	15,881

12. Restricted and pledged bank deposits and bank and cash balances

	30 June 2019 HK$'000 (Unaudited)	30 December 2018 HK$'000 (Audited)
Restricted and pledged bank deposits	**2**	343
Bank and cash balances	**12,909**	4,981
	12,911	5,324

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 2018	**3,650,359**	91,259
At 30 June 2019	**3,650,359**	91,259

14. Borrowings

	30 June 2019 HK$'000 (Unaudited)	30 December 2018 HK$'000 (Audited)
Non-current liabilities		
Bonds	**—**	3,000
Portion of entrusted loans due for repayment after 1 year	**28,737**	—
Other loans	**43,990**	—
	72,727	3,000
Current liabilities		
Portion of entrusted loans due for repayment within 1 year	**28,745**	56,928
Bonds	**19,750**	19,750
	48,495	76,678
Total borrowings	**121,222**	79,678

15. Trade and other payables

	30 June 2019 HK$'000 (Unaudited)	30 December 2018 HK$'000 (Audited)
Trade payables	**26,167**	36,187
Other payables and accruals (i)	**179,661**	163,530
Convertible bonds interest payable	**4,368**	—
Other tax payable	**2,271**	14,204
	212,467	213,921

Note:

(i) As at 30 June 2019, other payables included, construction cost payable of approximately HK$52,857,000, void convertible bonds of approximately HK$51,556,000.

15. Trade and other payables *(Continued)*

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

	30 June 2019 HK$'000 (Unaudited)	30 December 2018 HK$'000 (Audited)
Within 1 month	**568**	11,628
After 1 month but within 3 months	**1,362**	3,348
After 3 months but within 6 months	**9,728**	775
After 6 months but within 1 year	**3,710**	11,295
After 1 year	**10,799**	9,141
	26,167	36,187

16. Operating lease commitments

As lessee

At 30 June 2019, the total future minimum lease payments under non-cancellable operating leases are as follows:

	30 June 2019 HK$'000 (Unaudited)	30 December 2018 HK$'000 (Audited)
Within 1 year	**15,057**	15,057
After 1 year but within 5 years	**73,904**	73,904
Over 5 year	**280,836**	288,365
	369,797	377,326

17. Convertible bonds

On 16 January 2018, the Company issued the convertible bonds in an aggregate principal amount of US$7,000,000 (equivalent to approximately HK$54,600,000) with a coupon rate of 8% to the independent third party. The convertible bonds will mature from the date of issue to 15 January 2021 representing maturity period of 3 years, and can be converted into a maximum of 265,048,544 conversion shares of the Company at the conversion price of HK$0.206 per conversion shares upon full exercise of the conversion rights within the period of the 12 months after the issue date of the bonds up to the maturity date.

The convertible bonds recognised in the 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 16 January 2018	39,165	15,435	54,600
Transaction costs	(215)	(85)	(300)
Issue of convertible bonds	38,950	15,350	54,300
Imputed interest expense	7,163	—	7,163
At 31 December 2018 (Audited)	46,113	15,350	61,463
At 1 January 2019 (Audited)	46,113	15,350	61,463
Imputed interest expenses	3,820	—	3,820
Interest payable	(4,368)	—	(4,368)
At 30 June 2019 (Unaudited)	45,565	15,350	60,915

The interest charged for the year is calculated by applying an effective interest 17.73% to the liability component for the period 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 (level 2 fair value measurement).

18. Gain on deconsolidation of a subsidiary

On 22 February 2019, provisional judicial managers were appointed upon an application filed in the High Court of Singapore by Acromec Engineers Pte Ltd ("Acromec Engineers"). to place Pacific Fertility Institutes (Singapore) Pte Ltd ("PFI Singapore"), under judicial management. Acromec Engineers claimed that as at 1 February 2019, a balance of S$1,273,689 was due and owing to Acromec Engineers by PFI Singapore in relation to the renovation work provided by Acromec Engineers to the premises located at Royal Square Level 8, 103 Irrawaddy Road. The finance manager and other accounting personnel have resigned and limited accounting books and records preserved by PFI Singapore. The results, assets, liabilities and cash flows of this subsidiary were deconsolidated from the condensed consolidated financial statements of the Group since the appointment of provisional judicial managers.

Net liabilities of this subsidiary as at the date of loss of control were as follows:

	HK$'000
Right-of-use assets	37,424
Trade and other receivables	93
Bank and cash balances	504
Trade and other payable	(17,426)
Lease liabilities	(38,658)
Net liabilities as at the date of loss of control	(18,063)
Gain on deconsolidation of the subsidiary	18,063
Net cash outflow arising on deconsolidation of the subsidiary:	
Cash and cash equivalents	504

MANAGEMENT DISCUSSION AND ANALYSIS

Results and Business Review

During the six months ended 30 June 2019, the Group recorded a revenue of approximately HK$21,623,000, representing a decrease of 14.4% as compared to approximately HK$25,268,000 for the six months ended 30 June 2018. Gross profit for the period decrease to approximately HK$3,133,000 (six months ended 30 June 2018: approximately HK$7,944,000). Gross profit ratio for the period decreased to 14.5% (six months ended 30 June 2018: 31.4%). The decrease of gross profit ratio was in line with the decrease in gross profit margin in segment of wastewater treatment equipment trading with gross profit ratio 13.20% (six months ended 30 June 2018: 31.4%). The Group's loss attributable to owners of the Company for the period was approximately HK$30,339,000 (six months ended 30 June 2018: HK$24,552,000), an increase of approximately HK$5,787,000, which was mainly due to an increase in legal and professional fees of approximately HK$7.3 million as a result of ongoing litigations net off the impact of a successful cost cutting plan. Despite the significant legal and professional fees were incurred during the period, the Directors were confident a significant portion if not all of such amounts could be recovered from the litigation claims launched by the Company.

Outlook

In the first half of 2019, the macro landscape at home and abroad remained complex and challenging. Notwithstanding various external threats, China's macro economy continued demonstrating resilience and dynamism, maintaining a steady pace of growth which was driven by policies that seek stabilities in six major areas and a series of reforms. During the first half of 2019 ("period under review"), thanks to numerous relevant policies and regulatory measures introduced over the last few years, China's environmental protection industry generally developed a fundamental policy system and regulatory framework relating to major areas, such as water environment, soil, solid waste and air, etc. Tackling serious environmental problems, improving environmental quality, as well as driving high-quality and sustainable economic growth remained at the top of the Chinese government's agenda.

Beijing Jingrui Kemai Water Purification Technology Co., Ltd., the key subsidiary of the Group's environmental protection business continued to grow steadily in the field of sewage treatment equipment sales and process contracting, and the market reputation was further improved. As of the first half of 2019, 10 new orders were placed, 4 new projects were started, and 11 patents were filed in the same period. The second half of the year is at the peak of the industry and more orders are expected during the year.

The Group will continue to pursue the core objective of creating maximum value for Shareholders. While continuing to consolidate the existing business operations, we will continue to explore any suitable investment opportunities prudently. In view of the continued trade tension between China and the United States and the lessons learned from previous acquisitions, the Group will take a more cautious approach in evaluating new investment opportunities.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Outlook *(Continued)*

Looking forward, the external economic environment is expected to be in an unstable condition. In view of this, the Group will remain dedicated to constantly review, reinforce and, in appropriate circumstances, restructure its existing business segments in order to maintain its competitiveness. Meanwhile, we will pay more attention to economic change and take every chance to identify any suitable investment opportunity including other new business operation in the market for the Group.

Liquidity

The Group continued to make improvement and maintain a liquid position. As 30 June 2019, cash and bank balances of the Group increased to approximately HK$12,909,000 from HK$4,981,000 as at 31 December 2018.

As at 30 June 2019, the Group had total assets approximately HK$353,121,000 (31 December 2018: HK$146,700,000) and total assets less current liabilities of approximately HK$66,761,000, an improvement from a negative position of approximately $158,595,000 as at 31 December 2018. As at 30 June 2019, the current ratio also improved to 0.26 as compared to 0.21 as at 31 December 2018.

The Group's borrowings for the period amounted to approximately HK$166,787,000 (31 December 2018: HK$125,791,000). The Group's borrowings are denominated in Renminbi, Hong Kong dollars 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 also managed to improve its liquidity position by expanding its mix of long term liabilities in total liabilities from 13.9% as at 31 December 2018 to 48.7% as at 30 June 2019. The Group will continue its effort in using long term liabilities to replace its current liabilities exposure and raised further capital when appropriate to improve the overall liquidity of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

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 2019 was 60 (31 December 2018: 61). 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 2019, the Directors and chief executive of the Company had the following interests 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	1.21%
		1,244,098,431	34.08%
Hu Yueyeu	Beneficial owner	8,000,000	0.22%
Yang Baodong	Beneficial owner	792,000	0.02%

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 2019, 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.

ADDITIONAL INFORMATION *(Continued)*

Share Options Scheme *(Continued)*

2010 Share option scheme *(Continued)*

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 2019, 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 37 of the 2018 Annual Report of the Company respectively.

ADDITIONAL INFORMATION *(Continued)*

Substantial Shareholders' Interests in Shares

As at 30 June 2019, 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	1,200,000,000	32.87
Xu Zhong Ping	Interest of a controlled corporation	1,200,000,000	32.87

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 2019, 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 are made to announcements of the company dated 9 January 2019, 18 January 2019, 5 March 2019, 22 March 2019, 27 March 2019, 14 April 2019, 30 April 2019, 2 May 2019, 5 May 2019, 13 May 2019, 23 May 2019, 2 June 2019, 9 June 2019, 16 June 2019, 23 June 2019, 28 June 2019, 2 July 2019, 12 August 2019 and 15 August 2019. 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.

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 2019 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 21 of the 2018 Annual Report respectively.

Internal Controls

The Board is responsible for maintaining an adequate internal control system to safeguard shareholder investments and the assets of the Company and with the support of the Audit Committee reviewing the effectiveness of the system. In order to strengthen internal control and risk management, the Board has engaged external professional firm to review its current internal control systems and risk management which shall implement all necessary change, including but not limited to, the formal establishment of internal audit department. In order to enhance the Company's internal control system and minimize the occurrence of situations similar to PFI Cayman Group and PFI Singapore again.

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 2019.

ADDITIONAL INFORMATION *(Continued)*

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 2019.

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

Hong Kong, 29 August 2019