



China Environmental Technology Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 646



Interim
Report
2020

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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

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Legal Advisers

Withers LLP

Conyers Dill & Pearman

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Cayman Islands

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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 2020 – Unaudited*

		Six months ended 30 June	
		2020	2019
		(Unaudited)	(Unaudited)
Note		HK\$'000	HK\$'000
	Turnover	29,738	21,623
	Cost of sales	(20,069)	(18,490)
	Gross profit	9,669	3,133
	Other income	3	10
	Other gain/(losses), net	—	18,047
	Distribution costs	(1,186)	(764)
	Legal and professional fees	(4,216)	(8,913)
	Administrative expenses	(12,068)	(23,839)
	Loss from operations	(7,798)	(12,326)
	Finance costs	(13,783)	(17,753)
	Loss before taxation	(21,581)	(30,079)
	Income tax expenses	—	(486)
	Loss for the period	(21,581)	(30,565)
	Loss for the period attributable to:		
	Owners of the Company	(21,568)	(30,339)
	Non-controlling interests	(13)	(226)
		(21,581)	(30,565)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME*(Continued)**For the six months ended 30 June 2020 – Unaudited*

	Six months ended 30 June	
Note	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Other comprehensive income:		
Exchange differences on translating of foreign operations	<u>3,656</u>	<u>3,558</u>
Total other comprehensive income for the period	<u>3,656</u>	<u>3,558</u>
Total comprehensive loss for the period	<u>(17,925)</u>	<u>(27,007)</u>
Total comprehensive loss for the period attributable to:		
Owners of the Company	<u>(17,834)</u>	<u>(26,820)</u>
Non-controlling interests	<u>(91)</u>	<u>(187)</u>
	<u>(17,925)</u>	<u>(27,007)</u>
Loss per share:		
Basic and diluted (HK cents)	<u>(0.59)</u>	<u>(0.83)</u>

The notes on pages 9 to 18 form part of this interim report.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION*At 30 June 2020 – Unaudited*

	Note	At 30 June 2020 (Unaudited) HK\$'000	At 31 December 2019 (Audited) HK\$'000
Non-current assets			
Property, plant and equipment		1,186	1,514
Right-of-use assets		4,635	7,169
Intangible assets		1,010	1,071
		6,831	9,754
Current assets			
Trade and other receivables	11	28,326	27,312
Contract assets and contract costs		19,887	30,963
Bank and cash balances		1,279	3,351
		49,492	61,626
Current liabilities			
Trade and other payables	14	318,628	309,636
Contract liabilities		16,670	21,820
Borrowings	13	57,350	60,260
Lease liabilities		4,008	4,869
Convertible bonds	15	54,209	—
		450,865	396,585
Net current liabilities		(401,373)	(334,959)
Total assets less current liabilities		(394,542)	(325,205)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION*(Continued)**At 30 June 2020 – Unaudited*

	Note	At 30 June 2020 (Unaudited) HK\$'000	At 31 December 2019 (Audited) HK\$'000
Non-current liabilities			
Trade and other payables	14	26,831	23,568
Borrowings	13	61,058	61,058
Convertible bonds	15	—	53,200
Lease liabilities		702	2,194
		88,591	140,020
NET LIABILITIES		(483,133)	(465,225)
Capital and reserves			
Share capital	12	91,259	91,259
Reserves		(578,272)	(560,454)
Equity attributable to owners of the Company		(487,013)	(469,195)
Non-controlling interests		3,880	3,970
TOTAL DEFICIT		(483,133)	(465,225)

The notes on pages 9 to 18 form part of this interim report.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020 – 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 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)	<u>91,259</u>	<u>370,411</u>	<u>(180)</u>	<u>9,709</u>	<u>15,350</u>	<u>7,442</u>	<u>(731,050)</u>	<u>(237,059)</u>	<u>2,344</u>	<u>(234,715)</u>
Balance at 1 January 2020 (audited)	91,259	370,411	(180)	10,377	15,350	7,442	(963,854)	(469,195)	3,970	(465,225)
Loss for the period	—	—	—	—	—	—	(21,568)	(21,568)	(13)	(21,581)
Other comprehensive income	—	—	—	3,734	—	—	—	3,734	(78)	3,656
Others	—	—	—	—	—	16	—	16	1	17
Balance at 30 June 2020 (unaudited)	<u>91,259</u>	<u>370,411</u>	<u>(180)</u>	<u>14,111</u>	<u>15,350</u>	<u>7,458</u>	<u>(985,422)</u>	<u>(487,013)</u>	<u>3,880</u>	<u>(483,133)</u>

The notes on pages 9 to 18 form part of this interim report.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020 – Unaudited

	Six months ended 30 June	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Net cash generated from/ (used in) operating activities	67	(18,701)
Net cash used in investing activities	(16)	(385)
Net cash (used in)/generated from financing activities	(2,111)	27,057
(Decrease)/increase in cash and cash equivalents	(2,060)	7,971
Cash and cash equivalents at beginning of period	3,351	4,981
Effect of change in foreign exchange rate	(12)	(43)
Cash and cash equivalents at end of period	1,279	12,909
Analysis of the balances of cash and cash equivalents		
Bank and cash balances	1,279	12,909

The notes on pages 9 to 18 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 2019. 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 2019 except as stated below.

(a) Going Concern

The Group incurred loss attributable to owners of the Company of approximately HK\$21,568,000 for the six months ended 30 June 2020 and the Group had net current liabilities and net liabilities of approximately HK\$401,373,000 and approximately HK\$483,133,000 respectively as at 30 June 2020. 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 measures have been undertaken by the Directors to improve the Group’s liquidity and financial position, 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	2 years
Motor vehicles	2 years

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 a subsidiary*

The consolidated financial statements have been prepared based on the books and records maintained by the Group. Referred to the Company's announcement of 5 March 2019 regarding Interim Judicial Managers being appointed upon an application filed in the High Court of Singapore by Acromec Engineers Pte Ltd to place Pacific Fertility Institutes (Singapore) Pte Ltd ("PFI Singapore") under judicial management on 22 February 2019, the Group is no longer able to exercise control over the assets and operations over PFI Singapore. The Directors considered that the control over the PFI Singapore had been lost since 22 February 2019. The results, assets, liabilities and cash flows of this subsidiary was deconsolidated from the consolidated financial statements of the Group since 22 February 2019.

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 2020. 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.

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 2020 HK\$’000 (Unaudited)	30 June 2019 HK\$’000 (Unaudited)	30 June 2020 HK\$’000 (Unaudited)	30 June 2019 HK\$’000 (Unaudited)
Wastewater treatment equipment trading	29,738	21,145	4,948	(5,520)
Health related products and services	—	478	—	(3,577)
	<u>29,738</u>	<u>21,623</u>	<u>4,948</u>	<u>(9,097)</u>

4. Segment reporting *(Continued)*

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

	Six months ended	
	30 June 2020 HK\$'000 (Unaudited)	30 June 2019 HK\$'000 (Unaudited)
Reportable segment results	4,948	(9,097)
Other income and other gain/(losses), net	3	18,057
Depreciation and amortisation	(2,644)	(7,044)
Finance costs	(13,783)	(17,753)
Unallocated head office and corporate expenses	(10,105)	(14,242)
Loss before taxation	(21,581)	(30,079)

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

	Six months ended	
	30 June 2020 HK\$'000 (Unaudited)	30 June 2019 HK\$'000 (Unaudited)
Other income		
Interest income on bank deposits	3	10
Other gain/(loss), net		
Gain on disposal of subsidiaries	—	18,063
Others	—	(16)
	—	18,047

6. Loss before taxation

Loss before taxation is arrived at after charging:

	Six months ended	
	30 June	30 June
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
(a) Finance costs:		
Interest on bank borrowings wholly repayable within five years	3,119	3,689
Interest on bonds	25	753
Imputed interest on convertible bonds	5,377	3,820
Other loan interests	4,904	1,393
Finance cost of lease liabilities	358	8,098
	<u>13,783</u>	<u>17,753</u>
(b) Other items:		
Amortisation of intangible assets	38	93
Depreciation of property, plant and equipment	163	211
Depreciation of right-of-use assets	2,443	6,740
	<u>2,644</u>	<u>7,044</u>

7. Income tax expenses

	Six months ended	
	30 June	30 June
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current tax – PRC corporate income tax	<u>—</u>	<u>(486)</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 2020. 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 2020 (30 June 2019: Nil).

9. Loss per share

Basic and diluted

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 2020 HK\$'000 (Unaudited)	30 June 2019 HK\$'000 (Unaudited)
Attributable to the owners of the Company	<u>(21,568)</u>	<u>(30,339)</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. Movement in property, plant and equipment and intangible assets

The Group spent approximately HK\$16,000 (six months ended 30 June 2019: HK\$115,000) on property, plant and equipment during the period.

11. Trade and other receivables

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Trade receivables	21,444	21,996
Bills receivable	1,544	1,812
Less: allowance for doubtful debts	(4,263)	(4,356)
	18,725	19,452
Other receivables	8,047	5,762
Prepayments and deposits	1,554	2,098
	28,326	27,312

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

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Within 3 months	3,088	6,168
More than 3 months but less than 12 months	4,085	3,386
More than 12 months	11,552	9,898
	18,725	19,452

12. Share capital

	No. of shares '000	Amount HK\$'000
Authorised:		
Ordinary shares of HK\$0.025 each	8,000,000	200,000
Issued and fully paid:		
Ordinary shares		
At 31 December 2019 and 30 June 2020	3,650,359	91,259

13. Borrowings

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Non-current liabilities		
Bonds	—	—
Other loans	<u>61,058</u>	<u>61,058</u>
	61,058	61,058
Current liabilities		
Bank loans	—	1,812
Entrusted loan	<u>50,350</u>	<u>51,448</u>
Bonds	<u>7,000</u>	<u>7,000</u>
	57,350	60,260
Total borrowings	<u>118,408</u>	<u>121,318</u>

14. Trade and other payables

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Trade payables	29,787	36,064
Other payables and accruals (i)	301,396	284,805
Other tax payable	11,085	11,324
Amount due to directors	<u>3,191</u>	<u>1,011</u>
	<u>345,459</u>	<u>333,204</u>
Analysis as:		
Current liabilities	318,628	309,636
Non-current liabilities	<u>26,831</u>	<u>23,568</u>
	<u>345,459</u>	<u>333,204</u>

14. Trade and other payables *(Continued)*

Note:

- (i) As at 30 June 2020, other payables and accruals included rent payable of approximately HK\$8,222,000 (31 December 2019: HK\$8,382,000), non-contractual loan of approximately HK\$38,720,000 (31 December 2019: HK\$39,564,000), amounts due to the Investor (as defined in the Group's consolidated financial statements for the year ended 31 December 2019) and companies controlled by the Investor of approximately HK\$21,523,000 (31 December 2019: HK\$19,394,000), interest payables of approximately HK\$20,266,000 (31 December 2019: HK\$9,838,000), and legal and professional fee payables of approximately HK\$6,778,000 (31 December 2019: HK\$5,309,000).

As at 18 November 2019, the Group has undergone an early cessation arrangement for a lease contract with the lessor, who is entitled to bring legal actions against a subsidiary of the Company for the early cessation claims. The Directors estimated that a provision for claims in relation to the early cessation on arrangement of approximately HK\$180,713,000 should be accounted for during the year ended 31 December 2019. Given the rental despositis paid of approximately HK\$3,915,000, which could be deducted by lessor as stated in the lease, the probable exposure would be approximately HK\$176,798,000.

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

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Within 1 month	1,794	4,833
After 1 month but within 3 months	4,008	2,913
After 3 months but within 6 months	143	489
After 6 months but within 1 year	3,623	13,416
After 1 year	20,219	14,413
	29,787	36,064

15. 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 share 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 component and equity component, and are calculated as follows:

	Liability component	Equity component	Total
	HK\$'000	HK\$'000	HK\$'000
At 1 January 2019 (Audited)	46,113	15,350	61,463
Imputed interest expenses	11,455	—	11,455
Interest payable	(4,368)	—	(4,368)
	<u>53,200</u>	<u>15,350</u>	<u>68,550</u>
At 31 December 2019 (Audited)	53,200	15,350	68,550
At 1 January 2020 (Audited)	53,200	15,350	68,550
Imputed interest expenses	5,377	—	5,377
Interest payable	(4,368)	—	(4,368)
	<u>54,209</u>	<u>15,350</u>	<u>69,559</u>
At 30 June 2020 (Unaudited)	54,209	15,350	69,559

The interest charged for the period 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).

MANAGEMENT DISCUSSION AND ANALYSIS

Results and Business Review

During the six months ended 30 June 2020, the Group recorded a revenue of approximately HK\$29,738,000, representing an increase of 37.5% as compared to approximately HK\$21,623,000 for the six months ended 30 June 2019. Gross profit for the period increased to approximately HK\$9,669,000 (six months ended 30 June 2019: approximately HK\$3,133,000). Gross profit ratio for the period increased to 32.5% (six months ended 30 June 2019: 14.5%). The increase of gross profit ratio was in line with the increase in gross profit margin in segment of wastewater treatment equipment trading with gross profit ratio of 32.5% (six months ended 30 June 2019: 13.2%). The Group's loss attributable to owners of the Company for the period was approximately HK\$21,568,000 (six months ended 30 June 2019: HK\$30,339,000).

In the first half of 2020, the outbreak of the new crown pneumonia epidemic has had a significant impact on the development of many domestic enterprises, and the international situation has become more complicated. The environmental protection industry was also affected during the period. Many investment plans have changed and the progress of the project has been delayed. With the effective control of the epidemic in China after the Spring Festival, the government has also adopted many measures and encouragement policies that are conducive to economic development, and the environmental protection industry projects have accelerated the resumption of work. In the first half of the year, the Group's subsidiary in the environmental protection sector engaged in the sewage business still received 9 orders and delivered 10 projects during the epidemic period. Compared with the projects in the first half of 2019, their turnover achieved greater growth and the environmental protection business turned losses into profits. In the first half of the year, the environmental protection sector benefited from the subsidiary's enhanced project management and optimized supply chain system, which greatly reduced the procurement cost of the projects. The gross profit margin of the delivered sewage treatment projects increased significantly from 13.2% in the first half of 2019 to 32.5%. During the same period, the Group applied for 10 new patents. The standard "Technical Regulations for Magnetic Media Coagulation and Sedimentation Water Treatment", of which the Group was one of the co-authors, was officially promulgated on 1 April 2020.

Outlook

Apart from the aforementioned "Technical Regulations for Magnetic Media Coagulation and Sedimentation Water Treatment", the Group is participating in the drafting of two other industry standards, which are under preparation and demonstration. By taking part in the drafting and preparation of industry technical standards, enhancing project management and constantly optimizing supply chain system, the Group will continue to maintain a leading position in the segmented industry and consolidate its competitive position. In the first half of 2020, the Group still received 9 orders during the epidemic period. The Group believes that its environmental protection subsidiary is expected to obtain more orders from the market in the second half of the year and further expand its business volume. It is expected to achieve breakthrough results this year. In the future, it will focus on the industrial chain and lay a solid foundation for the development of the Group's environmental protection business.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Outlook *(Continued)*

In July 2020, the Group has acquired the controlling interest in Hope Biotech (HongKong) Ltd, which owns 20 patents relating to stem cell and immune cell technology. In the near future, the Group will continue to acquire more patent technologies related to stem cell and immune cell therapy. With all these newly acquired or to be acquired technologies and completion of new fund raising by the Group later this year, the Group will kick off its own research capabilities to develop its own COVID-19 vaccine and new medicine in cell therapy. Based on the current plan, the management is confident that the Group will have significant process in developing, if not completed, its own COVID-19 vaccine and will kick start at least one cell therapy medicine application in 2021. In addition to drug developments, the Group will use its patent technologies to work with existing cosmetic manufacturers to develop new cosmetic products, which is expected to launch to market in early 2021.

Liquidity

The Group continued to make improvement and maintain a liquid position. As 30 June 2020, cash and bank balances of the Group was approximately HK\$1,279,000.

As at 30 June 2020, the Group had total assets approximately HK\$56,323,000 (31 December 2019: HK\$71,380,000) and total assets less current liabilities of approximately -HK\$394,542,000 (31 December 2019: -HK\$325,205,000).

The Group's borrowings for the period amounted to approximately HK\$118,408,000 (31 December 2019: HK\$121,318,000). 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 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.

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 2020 was 64 (31 December 2019: 62). 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 2020, 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	1.21%
		<u>1,244,098,431</u>	<u>34.08%</u>
Yang Baodong	Beneficial owner	792,000	0.02%
Hu Yueyue	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 2020, 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 2020, 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 36 of the 2019 Annual Report of the Company respectively.

ADDITIONAL INFORMATION *(Continued)*

Substantial Shareholders' Interests in Shares

As at 30 June 2020, 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 2020, 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 Events During the Period

References are made to announcements of the Company dated 29 January 2020, 29 March 2020, 31 March 2020, 29 April 2020, 4 May 2020 and 10 May 2020. Terms used hereinafter shall have the same meaning as defined in the above announcements.

Event After the Reporting Period

Reference is made to announcement of the Company dated 10 July 2020. Terms used hereinafter shall have the same meaning as defined in the announcement.

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.

ADDITIONAL INFORMATION *(Continued)*

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 2020 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 page 22 of the 2019 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, in 2019 the Board has established a formal internal audit department and engaged an external professional firm review its internal control systems and risk management. All necessary changes are being implemented 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 2020.

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 2020.

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

Hong Kong, 28 August 2020