CHINA ENVIRONMENTAL TECHNOLOGY HOLDINGS LIMITED
中國環保科技控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 646)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

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 2017 together with the comparative figures for the corresponding period in 2016.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2017 – Unaudited

	Note	Six months ended 30 June **2017** **(Unaudited)** **HK$'000**	 2016 (Unaudited) HK$'000
Turnover	3	**25,627**	32,349
Cost of sales		**(9,682)**	(21,333)
Gross profit		**15,945**	11,016
Other income	4	**304**	62
Other losses, net	4	**(38)**	(897)
Distribution costs		**(454)**	(622)
Administrative expenses		**(31,492)**	(26,783)
Loss from operations		**(15,735)**	(17,224)
Finance costs	5a	**(2,772)**	(4,645)
Loss before taxation	5	**(18,507)**	(21,869)
Income tax credit	6	**(110)**	1,071
Loss for the period		**(18,617)**	(20,798)
Loss for the period attributable to:			
Owners of the Company		**(20,750)**	(20,917)
Non-controlling interests		**2,133**	119
		(18,617)	(20,798)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Continued)

For the six months ended 30 June 2017 – Unaudited

	Note	Six months ended 30 June **2017** **(Unaudited)** **HK$'000**	2016 (Unaudited) HK$'000
Other comprehensive income:			
Exchange differences on translating of foreign operations		**(813)**	3,420
Total other comprehensive income for the period		**(813)**	3,420
Total comprehensive loss for the period		**(19,430)**	(17,378)
Total comprehensive loss for the period attributable to:			
Owners of the Company		**(21,580)**	(17,497)
Non-controlling interests		**2,150**	119
		(19,430)	(17,378)
(Loss) earnings per share:			
Basic (HK cents)		**(0.57)**	(0.84)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017 – Unaudited

	Note	**At 30 June 2017 (Unaudited) HK$'000**	At 31 December 2016 (Audited) HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment		**6,316**	3,484
Intangible assets		**177,168**	3,927
Goodwill		**150,167**	–
Interests in an associate		–	–
		333,651	7,411
Current assets			
Financial assets at fair value through profit or loss		**55**	93
Inventories		**4,529**	7,878
Trade and other receivables	10	**134,901**	57,883
Cash and cash equivalents	11	**57,070**	95,363
Restricted and pledged bank deposits	11	**327**	755
Derivative financial asset		**10,470**	–
		207,352	161,972
Total assets		**541,003**	169,383
EQUITY			
Equity attributable to owners of the Company			
Share capital	12	**91,259**	75,009
Reserves		**74,699**	(62,971)
		165,958	12,038
Non-controlling interests		**192,563**	(6,970)
Total Equity		**358,521**	5,068

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Continued)

At 30 June 2017 – Unaudited

	Note	At 30 June 2017 (Unaudited) HK$'000	At 31 December 2016 (Audited) HK$'000
LIABILITIES			
Non-current liabilities			
Borrowings	13	**22,750**	22,750
Deferred tax liabilities		**469**	657
		23,219	23,407
Current liabilities			
Trade and other payables	14	**84,825**	66,006
Current tax liabilities		**12,182**	11,932
Borrowings	13	**62,256**	61,013
Deferred revenue		–	221
Finance lease payables		–	1,736
		159,263	140,908
Total liabilities		**182,482**	164,315
Total equity and liabilities		**541,003**	169,383
Net current assets		**48,089**	21,064
Total assets less current liabilities		**381,740**	28,475

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 2016.

2. Summary of principal accounting policies

The accounting policies adopted are consistent with those set out in the audited consolidated financial statements for the year ended 31 December 2016. 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 (“HKICPA”) that are relevant to its operations and effective for its accounting period beginning on 1 January 2017. HKFRSs comprise HKFRSs; Hong Kong Accounting Standards; and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group’s accounting policies 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 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.

3. Segment reporting

The Group manages its business by divisions which are organised from the product perspective.

Operating segments are identified on the basis of internal reports which provide information about components of the Group. These information are reported to and reviewed by the Directors, being the chief operating decision-maker ("CODM") for the purposes of resources allocation and performance assessment. The Group has presented the following 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 2017	30 June 2016	**30 June 2017**	30 June 2016
	HK$'000	HK$'000	**HK$'000**	HK$'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Wastewater treatment and construction services	**872**	21,362	**(4,616)**	(1,779)
Wastewater treatment equipment trading	**5,765**	10,987	**(2,153)**	(437)
Fertility medical treatment services	**18,990**	–	**4,369**	–
	25,627	32,349	**(2,400)**	(2,216)

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

	Six months ended	
	30 June 2017	30 June 2016
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Reportable segment results	**(2,400)**	(2,216)
Other income and other losses, net	**266**	(835)
Depreciation and amortisation	**(5,660)**	(1,334)
Finance costs	**(2,772)**	(4,645)
Unallocated head office and corporate expenses	**(7,941)**	(12,839)
Loss before taxation	**(18,507)**	(21,869)

4. Other income and other loss, net

	Six months ended 30 June 2017 HK$'000 (Unaudited)	30 June 2016 HK$'000 (Unaudited)
Other income		
Interest income on bank deposits	**304**	62
Other gain, net		
Net unrealised loss on financial assets at fair value through profit or loss	**(38)**	(30)
Loss on disposal of property, plant and equipment	**–**	(857)
Others	**–**	(10)
	(38)	(897)

5. Loss before taxation

Loss before taxation is arrived at after charging:

	Six months ended 30 June 2017 HK$'000 (Unaudited)	30 June 2016 HK$'000 (Unaudited)
(a) Finance costs:		
Interest on bank borrowings wholly repayable within five years	**2,772**	4,645
	2,772	4,645
(b) Other items:		
Amortisation of intangible assets	**5,226**	933
Depreciation of property, plant and equipment	**434**	401

6. **Income tax credit**

	Six months ended	
	30 June	30 June
	2017	2016
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Current tax – PRC corporate income tax	**298**	35
Deferred tax	**(188)**	(1,106)
	110	(1,071)

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 2017. PRC taxation is charged at the appropriate current rate of taxation ruling in the PRC.

7. **Interim dividend**

The Directors do not recommend any interim dividend for the six months ended 30 June 2017 (30 June 2016: Nil).

8. **Loss per share**

Basic

Basic loss per share is calculated by dividing the loss attributable to the owners of the Company by the weighted average number of ordinary shares in issue during the period.

	Six months ended	
	30 June	30 June
	2017	2016
	HK$'000	HK$'000
Attributable to the owners of the Company	**(20,750)**	(20,917)

	Number of shares	
	'000	'000
Weighted average number of ordinary shares in issue	**3,650,359**	2,500,303

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

9. **Movements in property, plant and equipment and intangible assets**

During the six months ended 30 June 2017, the Group acquired property, plant and equipment of HK$2,102,000 and intangible assets of HK$178,467,000 on a provisional fair value basis arising from acquisition of subsidiaries.

In addition, the Group spent HK$1,166,000 (six months ended 30 June 2016: HK$2,430,000) on property, plant and equipment during the period.

10. **Trade and other receivables**

	30 June 2017 HK$'000 (Unaudited)	30 December 2016 HK$'000 (audited)
Trade receivables	**26,105**	22,162
Other receivables	**37,975**	32,487
Trade deposits	**75**	73
Prepayments and deposits	**70,746**	3,161
	134,901	57,883

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

	30 June 2017 HK$'000 (Unaudited)	31 December 2016 HK$'000 (audited)
Within 2 months	**8,747**	4,795
More than 2 months but within 3 months	**–**	–
More than 3 months but less than 12 months	**320**	3,610
More than 12 months	**17,038**	13,757
	26,105	22,162

11. Cash and cash equivalents

	30 June 2017 HK$'000 (Unaudited)	31 December 2016 HK$'000 (audited)
Cash and bank balances	**57,070**	95,363
Pledged bank deposits	**327**	755
	57,397	96,118

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 2016	**3,000,359**	75,009
At 30 June 2017	**3,650,359**	91,259

13. Bank loans

	30 June 2017 HK$'000 (Unaudited)	31 December 2016 HK$'000 (audited)
Non-current liabilities		
Bonds	**22,750**	22,750
Current liabilities		
Portion of bank loans and other borrowings due for repayment within 1 year	**62,256**	61,013
Total borrowings	**85,006**	83,763

14. Trade and other payables

	30 June 2017 HK$'000 (Unaudited)	31 December 2016 HK$'000 (audited)
Trade payables	**19,114**	20,660
Other payables and accruals	**53,369**	32,520
Amount due to non-controlling interests	**4,962**	4,705
Sale deposits received	**7,380**	8,121
	84,825	66,006

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

	30 June 2017 HK$'000 (Unaudited)	31 December 2016 HK$'000 (audited)
Within 1 month	**2,072**	4,905
After 1 month but within 3 months	**155**	249
After 3 months but within 6 months	**5,108**	4,058
After 6 months but within 1 year	**728**	3,699
After 1 year	**11,051**	7,749
	19,114	20,660

15. Operating lease commitments

As lessee

At 30 June 2017, the total future minimum lease payments under non-cancellable operating leases are as follows:

	30 June 2017 HK$'000 (Unaudited)	31 December 2016 HK$'000 (audited)
Within 1 year	**2,184**	4,279
After 1 year but within 5 years	**1,274**	1,903
	3,458	6,182

16. Comparative amounts

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

17. Business Combination

On 30 December 2016, the Group entered into an agreement (the Agreement") with an independent third party (the "Vendor") to purchase 50% equity interest in Pacific Fertility Institutes Holding Company Limited and its subsidiaries ("PFI Group") at a total consideration of HK$175,500,000. The acquisition was completed on 31 March 2017 which is also the acquisition date ("Acquisition Date") for accounting purpose. PFI Group is engaged in the fertility medical treatment services business. Through the acquisition, the Group is able to expand its medical business.

	Acquirees' fair value at acquisition date HK$'000
Assets acquired and liabilities recognised at the date of acquisition were as follows:	
Property, plant and equipment	2,102
Intangible asset	178,467
Inventories	503
Trade and other receivables	3,577
Bank balances and cash	8,053
Derivative financial asset	10,470
Trade and other payables	(2,339)
Net assets	200,833
Goodwill arising on acquisition	150,167
Non-controlling interests	(175,500)
Total consideration	175,500
Total purchase consideration satisfied by:	
Issue consideration shares	175,500
Net cash inflow arising on acquisition:	
Bank balances and cash acquired	8,053

On 28 April 2017, the Group entered into an agreement (the "Agreement") with an independent third party (the "Vendor") to purchase 52.02% equity interest in Hainan Yinkai Medical Investment Company Limited ("Hainan Yinkai") at a total consideration of RMB 20,808,000 (equivalent to approximately HK$23,726,000.) The acquisition was completed on 30 April 2017 which is also the acquisition date ("Acquisition Date") for accounting purpose. Hainan Yinkai is engaged in hospital investment and management, investment in medical project, medical technology development business. Through the acquisition, the Group is able to expand its medical business.

	Acquirees' fair value at acquisition date
	HK$'000
Assets acquired and liabilities recognised at the date of acquisition were as follows:	
Trade and other receivables	34,777
Bank balances and cash	10,834
Trade and other payables	(2)
Net assets	45,609
Non-controlling interests	(21,883)
Total consideration	23,726
Total purchase consideration satisfied by:	
Cash consideration	23,726
Net cash inflow arising on acquisition:	
Cash consideration	(10,064)
Repayment of the debt obligatation	(11,336)
Payment for the unpaid capital	(2,326)
Bank balances and cash acquired	10,834
Net cash outflow on acquisition of subsidiary	(12,892)

MANAGEMENT DISCUSSION AND ANALYSIS

Results and Business Review

During the six months ended 30 June 2017, the Group recorded a turnover of approximately HK$25,627,000, representing a decrease of 20.78% as compared to HK$32,349,000 for the six months ended 30 June 2016. Gross profit for the period increase to approximately HK$15,945,000 (six months ended 30 June 2016: HK$11,016,000). Gross profit ratio for the period increased to 62.21% (six months ended 30 June 2016: 34.05%). The increase of gross profit ratio was in line with the increase in new segment of fertility medical treatment with gross profit ratio 67.86%. The Group's loss attributable to owners of the Company for the period was approximately HK$20,750,000 (six months ended 30 June 2016: loss HK$20,917,000).

During the period under review, the Group has expanded its medical business in the provision of high-quality in-vitro fertilization medical treatment services to patients.

Outlook

The Group is principally engaged in the environmental related business in the PRC including the provision of environmental technologies, products, equipments and system integration relating to water treatment, conservation, purification, recycling and management, and wastewater treatment.

In view of the unsatisfactory performance of the Group’s existing environmental related business and the prospect of the healthcare industry in the PRC, the Group has made a strategic move to enter into the PRC healthcare industry. In March 2017, the Group completed the acquisition of 50% equity interest in Pacific Fertility Institutes Holding Company Limited which, together with its subsidiaries, is principally engaged in the provision of high-quality in-vitro fertilization medical treatment services to patients, targeting primarily at patients from the United States, the Asia-Pacific region and the PRC. Its medical institution is located in Saipan.

The PRC government announced the two child policy in 2016. Furthermore, an notice had been announced by The National Health and Family Planning Commission of the PRC in September 2016 (the “Notice”) in relation to facilitate the implement of 中共中央國務院關於實施全面兩孩政策改革完善計劃生育服務管理的決定 (Decision of the CPC Central Committee and The State Council on Implementing the Policy Reform of Universal Two-child Policy and Improving the Management of Family Planning Service*) announced by The State Council of the PRC in December 2015. Before the issuance of the Notice, those infertile couples who would like to engage fertility medical treatment services were required to provide the 計劃生育證明 (Family Planning Certificate*), a certificate issue by the local Health and Family Planning Commission, to the services provider as to verify their qualification for joining such treatment services. According to the Notice, infertile couples are not required to provide the Family Planning Certificate to fertility medical treatment services providers and hence the registration procedures of engagement of the treatment services has been simplified.

Building on the successful acquisitions momentum, the Company will continue to pursue further growth opportunities. This is most beneficial to us in the diversification and management of risks and reward, mitigating our exposure in any particular investment. Nonetheless, the Company will continue to adopt very strict financial discipline when analyzing prospective investments and will not approach them with a "must win" mentally.

The favorable policies in the PRC on fertility medical treatment industry, including (i) the development of fertility medical consultancy services was listed as priority of the Hebei Province Government; and (ii) the two child policy.

The Board considers that the acquisitions of in-vitro fertilization medical treatment services would enable the Group to further expand its medical business into the PRC market and expand the Group's source of revenue.

Liquidity

The Group continued to maintain a liquid position. As 30 June 2017, cash and bank balances of the Group were approximately HK$57,070,000 (31 December 2016: HK$95,363,000).

As at 30 June 2017, the Group had total assets of approximately HK$541,003,000 (31 December 2016: HK$169,383,000) and total liabilities of approximately HK$182,482,000 (31 December 2016: HK$164,315,000). As at 30 June 2017, the current ratio was 1.30 (31 December 2016: 1.15).

The Group's borrowings and finance lease payables for the period amounted to approximately HK$85,006,000 (31 December 2016: HK$85,499,000). The Group's borrowings and finance lease payables are denominated in Renminbi, mainly comprise term loans bearing fixed and variable interest rates and an entrusted loan at fixed interest rate. The Group's gearing ratio, being the ratio of the total debts to total assets, was 15.71% (31 December 2016: 50.48%).

Charge on Assets

As at 30 June 2017, the Group's bank deposits of HK$327,000 (31 December 2016: HK$755,000) was pledged with the banks to secure banking facilities granted to the Group.

Foreign Currency Exposure

The Group had major investments, accounts receivable, bank balances, accounts payable and bank loans denominated in Renminbi, hence the Group had direct exposure to foreign exchange fluctuation. During the period under review, the Group did not use any foreign currency derivative product to hedge its exposure to currency risk. However, the management managed and monitored the exposure to ensure appropriate measures were implemented on a timely and effective manner.

Employees and Remuneration Policy

The total number of employees of the Group as at 30 June 2017 was 105 (31 December 2016: 95). 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

Important Event during the period

The Board considers that on 28 April 2017 the acquisition of the approximately 52.02% equity interest in the Target Company pursuant to the Agreement would enable the Group to further expand its medical business into the PRC market and expand the Group's source of revenue.

Reference is made to announcement of the Company dated 28 April 2017. Terms used hereinafter shall have the same meaning as defined in the above announcements.

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

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

SUBSEQUENT EVENTS

On 25 July 2017, the Company entered a major transaction in relation to the acquisition of the entire issued share capital in UBABY HOLDINGS INC. involving the issue of convertible bonds under specific mandate.

Reference is made to announcements of the Company dated 25 July 2017. Terms used hereinafter shall have the same meaning as defined in the above announcements.

Corporate Governance

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

The Company has complied with the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), throughout the six months ended 30 June 2017 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 12 of the 2016 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 2017.

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 2017.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed public float under the Listing Rules as at the date of this interim report.

Acknowledgement

On behalf of the Board, I would like to take this opportunity to express my sincere gratitude to our employees for their dedication and our shareholders for their unwavering support to the Company.

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

Hong Kong, 29 August 2017

As at the date of this announcement, the executive directors are Mr. Xu Zhong Ping, Mr. Xu Xiao Yang and Ms. Hu Yueyue; the non-executive director is Mr. Ma Tianfu; and the independent nonexecutive directors are Mr. Tse Chi Wai, Professor Zhu Nan Wen and Professor Li Jun.