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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 2023**

The board (the “Board”) of directors (the “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 2023 together with the comparative figures for the corresponding period in 2022.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2023 – Unaudited

	<i>Note</i>	Six months ended 30 June	
		2023	2022
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
Revenue	4	7,820	27,440
Cost of sales		<u>(5,632)</u>	<u>(17,465)</u>
Gross profit		<u>2,188</u>	<u>9,975</u>
Other income		23	62
Other gain, net	5	9,589	9,556
Distribution costs		(804)	(1,030)
Administrative expenses		<u>(12,140)</u>	<u>(14,921)</u>
(Loss)/profit from operations		(1,144)	3,642
Finance costs	6	<u>(13,744)</u>	<u>(14,074)</u>
Loss before tax	6	(14,888)	(10,432)
Income tax expenses	7	<u>—</u>	<u>—</u>
Loss for the period		<u>(14,888)</u>	<u>(10,432)</u>
Other comprehensive income for the period:			
Exchange differences on translation of financial statements of foreign operations		<u>8,285</u>	<u>8,831</u>
Total other comprehensive income for the period		<u>8,285</u>	<u>8,831</u>
Total comprehensive loss for the period		<u>(6,603)</u>	<u>(1,601)</u>
Loss for the period attributable to:			
Owners of the Company		(14,888)	(10,299)
Non-controlling interests		<u>—</u>	<u>(133)</u>
		<u>(14,888)</u>	<u>(10,432)</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Continued)

For the six months ended 30 June 2023 – Unaudited

	Six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
Note	HK\$'000	HK\$'000
Total comprehensive loss for the period attributable to:		
Owners of the Company	(6,387)	(1,354)
Non-controlling interests	<u>(216)</u>	<u>(247)</u>
	<u>(6,603)</u>	<u>(1,601)</u>
Loss per share:		
Basic and diluted (HK cents)	9 <u>(6.78)</u>	<u>(4.70)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2023 – Unaudited

		At 30 June 2023 (Unaudited) <i>HK\$'000</i>	At 31 December 2022 (Audited) <i>HK\$'000</i>
	<i>Note</i>		
Non-current assets			
Property, plant and equipment	<i>10</i>	653	713
Right-of-use assets		339	483
Intangible assets		774	849
Interests in an associate		—	—
		1,766	2,045
Current assets			
Trade and other receivables	<i>11</i>	24,847	24,499
Contract assets and contract costs		5,456	7,545
Bank and cash balances		4,489	790
		34,792	32,834
Current liabilities			
Trade and other payables	<i>12</i>	346,824	353,137
Contract liabilities		4,792	2,181
Borrowings	<i>13</i>	76,437	76,487
Lease liabilities		343	497
		428,396	432,302
Net current liabilities		(393,604)	(399,468)
Total assets less current liabilities		(391,838)	(397,423)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Continued)

At 30 June 2023 – Unaudited

		At 30 June 2023 (Unaudited) <i>HK\$'000</i>	At 31 December 2022 (Audited) <i>HK\$'000</i>
	<i>Note</i>		
Non-current liabilities			
Trade and other payables	<i>12</i>	49,966	39,956
Borrowings	<i>13</i>	72,989	72,448
Convertible bonds	<i>14</i>	65,584	66,089
Lease liabilities		—	—
		<u>188,539</u>	<u>178,493</u>
NET LIABILITIES		<u>(580,377)</u>	<u>(575,916)</u>
Capital and reserves			
Share capital	<i>15</i>	102,891	100,749
Reserves		<u>(688,718)</u>	<u>(682,331)</u>
Equity attributable to owners of the Company		(585,827)	(581,582)
Non-controlling interests		<u>5,450</u>	<u>5,666</u>
TOTAL DEFICIT		<u>(580,377)</u>	<u>(575,916)</u>

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 Third Floor, Century Yard, Cricket Square, P.O. Box 902, Grand Cayman KY1-1103, Cayman Islands and Unit 901, New Tech Plaza, 34 Tai Yau Street, San Po Kong, Kowloon, 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 projects 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 2022. 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 2022 except as stated below.

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 2023. 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 INFORMATION

The Group manages its business by divisions which are organised from the products/services 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 executive 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:

i. Wastewater treatment

This segment engages in the provision of wastewater treatment plants construction and operation services, as well as the trading of wastewater treatment facilities and machineries and the provision for related services.

ii. Healthcare

This segment engages in the provision of healthcare services.

(a) Segment results

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

	Segment revenue		Segment (loss)/profit	
	Six months ended		Six months ended	
	30 June	30 June	30 June	30 June
	2023	2022	2023	2022
	HK\$’000	HK\$’000	HK\$’000	HK\$’000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Wastewater treatment	7,820	27,440	(8,457)	(4,034)
Healthcare	—	—	8,043	9,213
	<u>7,820</u>	<u>27,440</u>	<u>(414)</u>	<u>5,179</u>

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

	Six months ended	
	30 June	30 June
	2023	2022
	HK\$’000	HK\$’000
	(Unaudited)	(Unaudited)
Total (loss)/profit of reportable segments	(414)	5,179
Unallocated depreciation of property, plant and equipment, right-of-use assets, and amortisation	(91)	(79)
Unallocated head office and corporate expenses	<u>(14,383)</u>	<u>(15,532)</u>
Consolidated loss before tax	<u>(14,888)</u>	<u>(10,432)</u>

5. OTHER GAIN, NET

	Six months ended	
	30 June 2023 <i>HK\$'000</i> (Unaudited)	30 June 2022 <i>HK\$'000</i> (Unaudited)
Net foreign exchange gain	8,936	9,556
Gain on debt settlement	410	—
Others	243	—
	<u>9,589</u>	<u>9,556</u>

6. LOSS BEFORE TAX

Loss before tax is arrived at after charging:

	Six months ended	
	30 June 2023 <i>HK\$'000</i> (Unaudited)	30 June 2022 <i>HK\$'000</i> (Unaudited)
(a) Finance costs:		
Lease interests	13	30
Interest expenses on:		
Bank loans	256	635
Entrusted loan	3,083	3,341
Other loans	6,410	6,276
Bonds	119	151
Convertible bonds	3,863	3,641
	<u>13,744</u>	<u>14,074</u>
(b) Other items:		
Amortisation of intangible assets	38	41
Depreciation of property, plant and equipment	29	37
Depreciation of right-of-use assets	496	518
	<u>563</u>	<u>596</u>

7. INCOME TAX EXPENSES

	Six months ended	
	30 June	30 June
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current tax – PRC corporate income tax	—	—

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 2023. 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 2023 (30 June 2022: Nil).

9. LOSS PER SHARE

The calculation of the basic and diluted loss per share attributable to the owners of the Company is based on the following:

	Six months ended	
	30 June	30 June
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss for the period for the purpose of calculating basic and diluted loss per share	<u>(14,888)</u>	<u>(10,299)</u>
	Number of shares	
	'000	'000
Weighted average number of ordinary shares for the purpose of calculating basic and diluted loss per share	<u>219,714</u>	<u>219,018</u>

For each of the six-month periods ended 30 June 2023 and 2022, the basic and diluted loss per share were the same as the Company had no dilutive potential ordinary shares in issue during the periods.

10. MOVEMENT IN PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

The Group spent approximately HK\$nil (six months ended 30 June 2022: HK\$nil) on property, plant and equipment during the period.

11. TRADE AND OTHER RECEIVABLES

	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
Trade receivables	25,480	28,450
Bills receivable	3,267	—
Less: allowance for doubtful debts	<u>(7,388)</u>	<u>(7,901)</u>
	21,359	20,549
Other receivables	1,276	3,435
Prepayments and deposits	<u>2,212</u>	<u>515</u>
	<u>24,847</u>	<u>24,499</u>

As at 30 June 2023, the Group's bills receivable of approximately HK\$3,222,000 (31 December 2022: HK\$nil) were pledged to secure bank borrowings of approximately HK\$3,222,000 (31 December 2022: HK\$nil).

The ageing analysis of the trade receivables and bill receivable based on invoice date and bills receipt date respectively, and net of allowance, were as follows:

	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
Within 3 months	7,258	7,457
More than 3 months but less than 12 months	3,124	8,604
More than 12 months	<u>10,977</u>	<u>4,488</u>
	<u>21,359</u>	<u>20,549</u>

12. TRADE AND OTHER PAYABLES

		30 June 2023	31 December 2022
		HK\$'000	HK\$'000
	<i>Notes</i>	(Unaudited)	(Audited)
Trade payables		32,297	34,303
Other payables	<i>(i)</i>	328,998	329,589
Other tax payables		14,813	15,233
Amount due to directors	<i>(ii)</i>	15,010	8,032
Amount due to a related party	<i>(ii)</i>	5,672	5,936
		396,790	393,093
Analysed as:			
Current liabilities		346,824	353,137
Non-current liabilities		49,966	39,956
		396,790	393,093

Notes:

- (i) As at 30 June 2023 other payables included rent payable of approximately HK\$7,941,000 (31 December 2022: HK\$8,311,000), non-contractual loan of approximately HK\$38,211,000 (31 December 2022: HK\$39,991,000), amounts due to a substantial shareholder (the “Shareholder”) and companies controlled by the Shareholder of approximately HK\$4,714,000 (31 December 2022: HK\$4,945,000), interest payables of approximately HK\$66,234,000 (31 December 2022: HK\$53,239,000), and legal and professional fee payables of approximately HK\$12,364,000 (31 December 2022: HK\$12,425,000).

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. As at 30 June 2023, the Directors estimated that a provision for claims in relation to the early cessation on arrangement after deducted the rental deposits would be approximately HK\$170,752,000 (31 December 2022: HK\$178,709,000).

- (ii) Amount due to directors and a related party are unsecured, non-interest bearing and has no fixed repayment terms.

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

	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
Within 1 month	125	5,890
After 1 month but within 3 months	1,255	189
After 3 months but within 4 months	338	803
After 4 months but within 1 year	6,976	6,690
After 1 year	<u>23,603</u>	<u>20,731</u>
	<u>32,297</u>	<u>34,303</u>

13. BORROWINGS

	<i>Notes</i>	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
Bank loans	<i>(i)</i>	18,347	15,830
Entrusted loan	<i>(ii)</i>	49,688	52,003
Other loans	<i>(iii)</i>	78,391	78,102
Bonds	<i>(iv)</i>	<u>3,000</u>	<u>3,000</u>
Total borrowings		149,426	148,935
Less: Amount due for settlement within 12 months (shown under current liabilities)		<u>(76,437)</u>	<u>(76,487)</u>
Amount due for settlement after 12 months		<u>72,989</u>	<u>72,448</u>

The carrying amounts of all borrowings are denominated in RMB, except the bonds and other loans are denominated in HK\$.

Notes:

- (i) As at 30 June 2023, the bank loans of approximately HK\$3,222,000 (31 December 2022: HK\$nil) are secured by the Group's bills receivable. The effective discount interest rate on the Group's bills receivable of approximately HK\$3,222,000 (31 December 2022: HK\$nil) is from 2.2% to 3.95% per annum for the six months ended 30 June 2023.

The bank loans of approximately HK\$15,125,000 (31 December 2022: HK\$15,830,000) are secured by properties owned by two companies controlled by the Shareholder and personal guarantees by an executive Director of the Company, and the effective discount interest rate on the bank loans is from 2.70% to 5.15% (2022: 2.70% to 5.15%) per annum for the six months ended 30 June 2023.

- (ii) On 19 March 2013, Shenzhen CETH Environmental Technology Co., Ltd., a wholly-owned subsidiary of the Company, entered into an entrusted loan agreement with an independent third party through commissioning a bank to borrow a loan of RMB50,000,000 for a period of three years from 23 April 2013 to 22 April 2016, and extended one year to 21 April 2017 when expired. The loan is secured by a guarantee from the Company. On 26 March 2019, the lender has decided to extend the repayment of this entrusted loan, for which, RMB25,000,000 of the entrusted loan shall be repaid on or before 31 December 2019 while the other RMB25,000,000 to be repaid on or before 31 December 2020. The effective interest rate of the entrusted loan (which also equals contractual interest rate) was 12% (2022: 12%) per annum. During the year ended 31 December 2020, the Group had repaid approximately RMB4,000,000. Approximately RMB46,000,000 of the entrusted loan was overdue as at 30 June 2023 (31 December 2022: RMB46,000,000). Up to the date of these condensed consolidated financial statements, the Group is undergoing active and positive negotiation with the lender to renew the repayment schedule.
- (iii) As at 30 June 2023, other loans of HK\$3,200,000 (31 December 2022: HK\$3,200,000) is interest-free, approximately HK\$15,233,000 (31 December 2022: HK\$15,944,000) arranged at a fixed interest rate of 15% and the remaining arranged at a fixed interest rate of 12% per annum, and all loans are repaid in full upon the maturity. Except for other loans of HK\$3,200,000 (31 December 2022: HK\$3,200,000), the remaining other loan were charged a additional fixed default interest rate of 5% per annum. Other loans of HK\$40,000,000, HK\$800,000, approximately HK\$19,158,000, approximately HK\$9,831,000, HK\$3,200,000 and approximately HK\$5,402,000 are matured on 27 September 2024, 30 September 2024, 31 December 2024, 31 December 2024, 8 January 2025 and 30 September 2025, respectively, of which the other loan of approximately HK\$5,402,000 matured on 30 September 2025 has a repayable on demand clause. All other loans are unsecured, except for approximately HK\$5,402,000 is secured by the Company.
- (iv) As at 30 June 2023, the Group has one (31 December 2022: one) unlisted straight bond to an (31 December 2022: one) independent investor in an aggregate principal amount of HK\$3,000,000 (31 December 2022: HK\$3,000,000) (the "Bonds"). The Bonds are unsecured, arranged at a fixed interest rate of 7% per annum and redeemable in full upon the maturity, i.e. three or four years from the date of issue. All outstanding bonds are overdue as at 30 June 2023 and 31 December 2022.

On 18 January 2023, the unlisted straight bonds holder signed an agreement with the Company to extend the repayment of this unlisted straight bond, with a principal of HK\$3,000,000 and interest of HK\$423,000 shall be repaid on or before 30 April 2023 while the other interest is calculated at interest rate of 8% from 1 October 2022 and settled according to the actual repayment date.

14. 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 an independent third party (the “Original Bondholder”). The convertible bonds would mature from the date of issue to 15 January 2021 representing maturity period of 3 years, and can be converted into a maximum of 265,048,543 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 component and equity component.

On 10 January 2021, the Company and the Original Bondholder verbally agreed to amend the terms and conditions of the convertible bonds in order to extend the maturity date and the conversion period of the convertible bonds. Accordingly, the Company and the Original Bondholder entered into the deed of amendments on 16 March 2021 to extend i) the maturity date to 31 July 2021, and ii) the conversion period to 30 July 2021 (the “CB Extension”). The CB Extension took effect on 18 March 2021. As a result of the CB extension, the liability and equity components were extinguished by approximately HK\$683,000 and HK\$15,350,000 respectively based on revaluation upon date of the execution, i.e. 18 March 2021. The revaluation was conducted with reference to the independent valuation performed by an independent valuer, Ravia Global Appraisal Advisory Limited, under level 2 fair value measurement.

On 19 July 2021, the Original Bondholder deposited the bond certificate of the Convertible Bonds with the duly completed form of transfer at the principal place of business of the Company, and the Company issued a new bond certificate in favour of the new bondholder (the “New Bondholder”). On 26 July 2021, the Company and the New Bondholder entered into the deed of amendments in respect of the proposed amendments, pursuant to which the Company agreed with the New Bondholder to amend certain terms and conditions of the convertible bonds (The “CB Amendments”), included extended the maturity date to 31 July 2024 and adjusted conversion price to HK\$0.025 per conversion shares. The CB Amendments took effect on 28 September 2021. As a result of the CB Amendments, the liability and equity components were loss on amendments of terms by approximately HK\$15,490,000 based on revaluation upon date of the execution, i.e. 28 September 2021. The valuation was conducted with reference to the independent valuation performed by an independent valuer, Ravia Global Appraisal Advisory Limited under level 2 fair value measurement.

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

	Liabilities component <i>HK\$'000</i>	Equity component <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2022 (Audited)	60,410	19,307	79,717
Imputed interest expenses	7,510	—	7,510
Less: coupon payable	<u>(1,831)</u>	<u>—</u>	<u>(1,831)</u>
At 31 December 2022 and 1 January 2023 (Audited)	66,089	19,307	85,396
Imputed interest expenses	3,863	—	3,863
Less: coupon payable	<u>(4,368)</u>	<u>—</u>	<u>(4,368)</u>
At 30 June 2023 (Unaudited)	<u>65,584</u>	<u>19,307</u>	<u>84,891</u>

The interest charged for the period is calculated by applying an effective interest 12.09% to the liability component for the period.

15. SHARE CAPITAL

	No. of shares <i>'000</i>	Amount <i>HK\$'000</i>
Authorised:		
Ordinary shares of HK\$0.50 each	<u>1,000,000</u>	<u>500,000</u>
Issued and fully paid:		
Ordinary shares		
At 31 December 2022	219,018	100,749
Issue of settlement shares (<i>Note</i>)	<u>4,200</u>	<u>2,142</u>
At 30 June 2023	<u>223,218</u>	<u>102,891</u>

Note:

On 21 May 2023, the Company entered into the subscription and settlement agreement with the subscriber pursuant to which the Company conditionally agreed to issue and the subscriber conditionally agreed to subscribe for 4,200,000 new shares at the issue price of HK\$0.6075 per share. The subscription of shares was completed on 1 June 2023. The closing price of the Company's ordinary shares on the date of completion was 0.51 per share. The gross proceeds from the subscription shares are approximately HK\$2,142,000 based on the market price upon completion, which were used to settle the debt of approximately HK\$2,552,000 due to the subscriber, resulting in a gain of approximately HK\$410,000.

16. SHARE-BASED PAYMENTS

Equity-settled share option scheme

The Company operates a share option scheme (the “Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Eligible participants of the Scheme include Directors, employees and consultants of the Company and its subsidiaries. The Scheme became effective on 10 September 2010 and remained in force for ten years from that date. Details of the Scheme were disclosed in the Company’s consolidated financial statements for the year ended 31 December 2022.

The following share options were outstanding under the Scheme during the reporting period:

Grantee	Date of grant	Exercisable period	Exercise price	Outstanding	Forfeited	Outstanding
				at 1 January 2023	during the period	at 30 June 2023
Directors	11 May 2020	From 11 May 2020 to 10 May 2030	HK\$0.50	2,088,000	—	2,088,000
Directors	11 May 2020	From 11 May 2021 to 10 May 2030	HK\$0.50	1,044,000	—	1,044,000
Directors	11 May 2020	From 11 May 2022 to 10 May 2030	HK\$0.50	1,044,000	—	1,044,000
Employees	11 May 2020	From 11 May 2020 to 10 May 2030	HK\$0.50	648,000	—	648,000
Employees	11 May 2020	From 11 May 2021 to 10 May 2030	HK\$0.50	584,000	(44,000)	540,000
Employees	11 May 2020	From 11 May 2022 to 10 May 2030	HK\$0.50	584,000	(44,000)	540,000
Consultants	11 May 2020	From 11 May 2020 to 10 May 2030	HK\$0.50	4,832,000	—	4,832,000
Consultants	11 May 2020	From 11 May 2021 to 10 May 2030	HK\$0.50	96,000	—	96,000
Consultants	11 May 2020	From 11 May 2022 to 10 May 2030	HK\$0.50	96,000	—	96,000
				<u>11,016,000</u>	<u>(88,000)</u>	<u>10,928,000</u>
Exercisable at the beginning and end of the period				<u>11,016,000</u>		<u>10,928,000</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Results

During the six months ended 30 June 2023, the Group recorded a revenue of approximately HK\$7,820,000, representing a decrease of 71.50% as compared to approximately HK\$27,440,000 for the six months ended 30 June 2022. Hence, gross profit for the period decreased to approximately HK\$2,188,000 (six months ended 30 June 2022: approximately HK\$9,975,000). Meanwhile, the gross profit ratio for the period decreased to 28.0% (six months ended 30 June 2022: 36.4%). The decrease in gross profit ratio was in line with the decrease in gross profit ratio in wastewater treatment segment of 28.0% (six months ended 30 June 2022: 36.4%). The Group's loss attributable to owners of the Company for the period increased to approximately HK\$14,888,000 (six months ended 30 June 2022: HK\$10,299,000). The increase in loss attributable to owners of the Company was mainly resulted from the decrease in revenue, the impact of which was partially offset by the exchange gain from the depreciation of Renminbi over Hong Kong dollars arising from Renminbi denominated payables and tightening of cost control.

Business Review and Outlook

With the end of the epidemic in the first half of 2023, although the environmental protection industry has gradually begun to recover, the overall economy in China's mainland is still facing many difficulties and challenges. For the wastewater treatment business of the Group, based on the advantages of brand effect and technology accumulation in the past, the number of new orders signed in the first half of the year has increased significantly compared with the same period of the previous year, and the potential market opportunities have increased. At the same time, the Group seized the opportunity of differentiated product demand and obtained two project orders for the first time using new technologies in the first half of the year, thereby broadening the Group's business areas and further consolidating its technical competitive advantages. Therefore, despite a decrease in revenue in the six months ended 30 June 2023, the management expects that the number of order and contract amount for the whole year of 2023 will increase significantly compared with the previous year.

Further, in view of the carbon peaking and carbon neutrality targets by the Chinese government, the Group is exploring its opportunities in forest ownership, forest management, forest trading and forest related carbon credit trading. The management is optimistic about forest related business and believes that forest related business can bring solid financial growth to the Group in the near future. At the same time, the Group will continue to focus on opportunities in the field of resource utilization of environmentally friendly solid waste.

Liquidity

The Group continued to make improvement and maintain a liquid position. As 30 June 2023, cash and bank balances of the Group was approximately HK\$4,489,000.

As at 30 June 2023, the Group had total assets of approximately HK\$36,558,000 (31 December 2022: HK\$34,879,000) and current liabilities less total assets of approximately HK\$391,838,000 (31 December 2022: HK\$397,423,000). The Group's gearing ratio, being the ratio of the total debts to total assets, was 588.13% (31 December 2022: 616.49%).

The Group's borrowings for the period amounted to approximately HK\$215,010,000 (31 December 2022: HK\$215,024,000). The Group's borrowings are denominated in Renminbi and Hong Kong dollars, mainly comprising 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 and raise 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 certain borrowings 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 2023 was 49 (31 December 2022: 49). 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. The Group provides employees with a set of comprehensive development and training plans, including company regulation and policy training, work skills training and project management training. The training improves our employees' abilities in various ways and enhances the team spirit inside the Group.

ADDITIONAL INFORMATION

Directors' and Chief Executive's Interests in Shares and Underlying Shares

As at 30 June 2023, 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 Zhongping (<i>Note</i>)	Interest held by a controlled corporation	50,725,000	22.72%
	Beneficial owner	<u>2,204,921</u>	<u>0.99%</u>
		52,929,921	23.71%
Yang Baodong	Beneficial owner	39,600	0.02%
Hu Yueyue	Beneficial owner	400,000	0.18%

Note: These 50,725,000 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 Zhongping is the sole shareholder of Classy Jade Limited. Mr. Xu Zhongping was therefore deemed to be interested in the said 50,725,000 shares held by Gentle under Part XV of the SFO.

Apart from the foregoing, as at 30 June 2023, 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.

Issuance of Shares

On 21 May 2023, the Company entered into the Subscription and Settlement Agreement with Mr. Wong Yu Shan Eugene (“Mr. Wong”), pursuant to which the Company conditionally agreed to issue and Mr. Wong conditionally agreed to subscribe for 4,200,000 Subscription Shares at the Issue Price of HK\$0.6075 per Subscription Share. On the date of signing the Subscription and Settlement Agreement, the closing price for each Share of the Company was HK\$0.53. The aggregate gross proceeds of the Subscription was approximately HK\$2.55 million. The aggregate net proceeds of the Subscription, after the deduction of the related expenses, was approximately HK\$2.52 million, representing a net issue price of approximately HK\$0.600 per Subscription Share. The proceeds of the Subscription was to set off against the Payables due by the Group to Mr. Wong. The Subscription has been completed on 1 June 2023.

For the details of the Subscription above-mentioned and the meanings of relevant defined terms, please refer to the announcements of the Company dated 21 May 2023 and 1 June 2023.

Share Options Scheme

2002 Share option scheme

The Company’s 2002 Share Option Scheme was adopted on 28 March 2002 and was terminated by a resolution passed by shareholders on 10 September 2010.

2010 Share option scheme

The Company has, in accordance with Chapter 17 of the Listing Rules, adopted a share option scheme (the “2010 Share Option Scheme”), as approved by the shareholders of the Company at the extraordinary general meeting held on 10 September 2010. The Directors are given a general mandate to invite eligible participants to take up options at the subscription price as prescribed under the 2010 Share Option Scheme to subscribe for shares of the Company. The purpose of the share option scheme is 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 2010 Share Option Scheme has become valid and effective for a period of ten years ending on 9 September 2020.

The exercise price of options is the highest of the nominal value of the shares, the closing price of the shares on the Stock Exchange on the date of offer and the average closing price of the shares on the Stock Exchange for the five business days immediately preceding the date of offer. Each option gives the holder the right to subscribe for one ordinary share in the Company.

The total number of securities available for issue under the share option scheme as at 30 June 2023 was 10,928,000 shares which represents 4.90% of the issued share capital of the Company as at 30 June 2023. Among all the share options outstanding as at 30 June 2023, 7,568,000 share options are vested from the date of grant and 3,360,000 options are vested in two equal installments with the first and second installments to be vested in one and two years from the date of grant, respectively. The options are exercisable after the vesting date but within a period of ten years from the date of grant. 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.

The 2010 Share Option Scheme had expired on 9 September 2020.

The details of share options granted by the Company under the 2010 Shares Option Scheme up to 30 June 2023 are set out in note 16 to the condensed consolidated financial statements.

The following table discloses movements in the Company's share options outstanding during the reporting period:

Name or category of participant	Number of share options					At 30 June 2023	Date of grant of share options	Exercise period of share options	Exercise price of share options HK\$ per share
	At 1 January 2023	Granted during the period	Exercised during the period	Expired during the period	Forfeited during the period				
Directors									
Mr. Xu Zhongping	912,000	—	—	—	—	912,000	11 May 2020	11.5.2020 to 10.5.2030	0.50
	456,000	—	—	—	—	456,000	11 May 2020	11.5.2021 to 10.5.2030	0.50
	456,000	—	—	—	—	456,000	11 May 2020	11.5.2022 to 10.5.2030	0.50
	<u>1,824,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,824,000</u>			
Mr. Yang Baodong	912,000	—	—	—	—	912,000	11 May 2020	11.5.2020 to 10.5.2030	0.50
	456,000	—	—	—	—	456,000	11 May 2020	11.5.2021 to 10.5.2030	0.50
	456,000	—	—	—	—	456,000	11 May 2020	11.5.2022 to 10.5.2030	0.50
	<u>1,824,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,824,000</u>			
Mr. Ma Tianfu	264,000	—	—	—	—	264,000	11 May 2020	11.5.2020 to 10.5.2030	0.50
	132,000	—	—	—	—	132,000	11 May 2020	11.5.2021 to 10.5.2030	0.50
	132,000	—	—	—	—	132,000	11 May 2020	11.5.2022 to 10.5.2030	0.50
	<u>528,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>528,000</u>			
Other employees									
In aggregate	648,000	—	—	—	—	648,000	11 May 2020	11.5.2020 to 10.5.2030	0.50
	584,000	—	—	—	(44,000)	540,000	11 May 2020	11.5.2021 to 10.5.2030	0.50
	584,000	—	—	—	(44,000)	540,000	11 May 2020	11.5.2022 to 10.5.2030	0.50
	<u>1,816,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(88,000)</u>	<u>1,728,000</u>			
Suppliers of goods or services									
In aggregate	4,832,000	—	—	—	—	4,832,000	11 May 2020	11.5.2020 to 10.5.2030	0.50
	96,000	—	—	—	—	96,000	11 May 2020	11.5.2021 to 10.5.2030	0.50
	96,000	—	—	—	—	96,000	11 May 2020	11.5.2022 to 10.5.2030	0.50
	<u>5,024,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>5,024,000</u>			
Total	<u>11,016,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(88,000)</u>	<u>10,928,000</u>			

As at 30 June 2023, the Company had 10,928,000 share options outstanding under the 2010 Share Option Scheme. Should they be fully exercised, the Company will receive HK\$5,464,000 (before issue expenses).

Save as disclosed above, at no time during the the reporting period was the Company, or any of its holding company, subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

Substantial Shareholders' Interests in Shares

As at 30 June 2023, 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	Beneficial owner	50,725,000	22.72
Classy Jade Limited	Interest of a controlled corporation	50,725,000	22.72
Xu Zhongping	Interest of a controlled corporation	50,725,000	22.72
Zhang Zihong	Beneficial owner	33,980,000	15.22

Note:

Classy Jade Limited owns 60% of the issued share capital of Gentle. Xu Zhongping is the sole shareholder of Classy Jade Limited and was therefore deemed to be interested in the said 50,725,000 shares held by Gentle under Part XV of the SFO.

Save as disclosed above, as at 30 June 2023, 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 30 January 2023, 19 and 28 February 2023, 26 March 2023, 7 and 21 May 2023 and 1 June 2023. Terms used hereinafter shall have the same meaning as defined in these announcements.

Events After the Reporting Period

There have been no significant events of the Group from 30 June 2023 until the date of this 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.

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 as set out in Appendix 14 of the Listing Rules, throughout the six months ended 30 June 2023 except for the code provisions in respect of B.2.3. Details of the deviations from code provisions B.2.3 in respect of service term of the non-executive Director is explained in the section "Corporate Governance Report" on page 12 of the 2022 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 such system on an annual basis.

The internal control system of the Group is designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks and to safeguard assets of the Group. The senior management shall review and evaluate the control process and monitor any risk factors on a regular basis and a formal internal audit department was set up in 2019 to report to the Audit Committee on any findings and measures to address the variances and identified risks.

The Group established internal audit department to manage, implement and monitor internal control process. In 2020, the Board approved and internally announced Corporate Governance Manual and a complaint mailbox to further strengthen the internal control system and minimize the occurrence of wrongdoings and misconduct. The Board has conducted a review of the effectiveness of the internal control system of the Group and was satisfied with the result.

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 2023.

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 2023.

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

Hong Kong, 31 August 2023

As at the date of this announcement, the executive Directors are Mr. Xu Jinping, Mr. Xu Zhongping and Mr. Yang Baodong; the non-executive Directors are Ms. Hu Yueyue and Mr. Ma Tianfu; and the independent non-executive Directors are Mr. Tse Chi Wai, Professor Zhu Nanwen and Professor Li Jun.