CHINA ENVIRONMENTAL TECHNOLOGY AND BIOENERGY HOLDINGS LIMITED
中科生物控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1237)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2017

The Board announces the unaudited interim results of the Group for the Period, together with the comparative figures for the previous financial periods.

The interim financial results set out in this announcement do not constitute the Group's interim financial report for the Period, but are extracted from the Group's interim financial report.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
for the six months ended 30 June 2017 — unaudited
(Expressed in Renminbi)

		Six months ended 30 June	
		2017	2016
	Note	***RMB'000***	*RMB'000*
Revenue	*3, 4*	**209,492**	205,900
Cost of sales		**(181,226)**	(182,277)
Gross profit		**28,266**	23,623
Other revenue	*6(a)*	**10,665**	16,797
Other net (loss)/gain	*6(b)*	**(1,300)**	865
Selling and distribution expenses		**(7,749)**	(11,466)
Administrative expenses		**(31,300)**	(27,358)
(Loss)/profit from operations		**(1,418)**	2,461
Finance costs	*7(a)*	**(2,047)**	(5,676)
Share of losses of associates		**(92)**	(60)
Loss before taxation	*7*	**(3,557)**	(3,275)
Income tax expenses	*8*	**(324)**	(900)
Loss for the period		**(3,881)**	(4,175)
Loss per share			
Basic and diluted (RMB)	*9*	**(0.0013)**	(0.0016)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the six months ended 30 June 2017 — unaudited
(Expressed in Renminbi)

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Loss for the period	**(3,881)**	(4,175)
Other comprehensive income for the period, net of tax:		
Items that may be reclassified subsequently to profit or loss:		
— Exchange differences on translation of financial statements of foreign operations	**(7,871)**	5,706
Total comprehensive income for the period	**(11,752)**	1,531

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2017 — unaudited
(Expressed in Renminbi)

	Note	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Non-current assets			
Property, plant and equipment		**588,311**	548,043
Lease prepayments		**97,129**	98,096
Non-current prepayments for acquisitions of property, plant and equipment		**57,792**	64,167
Interest in associates		**23,145**	23,355
Other financial assets		**2,495**	2,495
Deferred tax assets		**4,489**	4,596
		773,361	740,752
Current assets			
Inventories	*10*	**338,271**	319,500
Current portion of lease prepayments		**1,966**	1,966
Trade and other receivables	*11*	**235,472**	239,886
Pledged deposits		**186,908**	147,192
Cash and cash equivalents		**119,058**	173,986
		881,675	882,530
Current liabilities			
Trade and other payables	*12*	**57,098**	33,329
Bank loans		**326,557**	340,072
Debentures		**17,358**	17,890
Current portion of deferred income		**1,163**	1,163
Current taxation		**26,022**	26,324
		428,198	418,778
Net current assets		**453,477**	463,752

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
at 30 June 2017 — unaudited
(Expressed in Renminbi)

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Total assets less current liabilities	**1,226,838**	1,204,504
Non-current liabilities		
Bank loans	**32,000**	56,290
Non-current portion of deferred income	**16,620**	17,201
Deferred tax liabilities	**2,007**	2,296
	50,627	75,787
NET ASSETS	**1,176,211**	1,128,717
Equity		
Share capital	**25,544**	20,987
Reserves	**1,150,667**	1,107,730
TOTAL EQUITY	**1,176,211**	1,128,717

NOTES

1 REPORTING ENTITY AND BASIS OF PREPARATION

(a) Reporting entity

The Company was incorporated in the Cayman Islands on 17 October 2011 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Shares were listed on the Stock Exchange on 6 July 2012.

(b) Basis of preparation

The condensed interim financial statements has been prepared in accordance with the applicable disclosure provisions of the Listing Rules, including compliance with International Accounting Standard ("IASs") 34, *Interim financial reporting*, issued by the International Accounting Standards Board ("IASB"). It was authorised for issue by the Board on 31 August 2017.

The interim financial statements has been prepared in accordance with the same accounting policies adopted in the 2016 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2017 annual financial statements. Details of these changes in accounting policies are set out in note 2.

The preparation of an interim financial statements in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

2 CHANGES IN ACCOUNTING POLICIES

The IASB has issued the following amendments to International Financial Reporting Standards ("IFRSs") and new Interpretation that are first effective for the current accounting period of the Group and the Company:

Amendments to IAS 7, Disclosure Initiative

Amendments to IAS 12, Recognition of Deferred Tax Assets for Unrealised Losses

Amendments to IFRS 12, Clarification of the Scope of IFRS 12 (from Annual Improvements to IFRSs 2014–2016 Cycle)

None of the above amendments that are effective for the first time for periods beginning on or after 1 January 2017 have a material effect on these condensed consolidated interim financial statements. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 REVENUE

The principal activities of the Group are manufacturing and sales of outdoor wooden products, engaging in projects of outdoor wooden products including the provision of design and installation services, retail sales of outdoor wooden products through self-operated retail shops and manufacturing and sales of renewable energy products.

Revenue represents

(i) the sales value of goods sold to customers less returns, discounts, and value added taxes and other sales tax; and

(ii) contract revenue derived from projects of outdoor wooden products including the provision of design and installation services.

The amount of each significant category of revenue recognised in revenue is analysed as follows:

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Sales of outdoor wooden products	**197,290**	193,507
Retail sales of wooden products	**2,083**	3,223
Contract revenue derived from projects of outdoor wooden products including the provision of design and installation services	**–**	–
Sales of renewable energy products	**10,119**	9,170
	209,492	205,900

Geographic information of revenue

The following table sets out information about the geographical location of the Group's revenue from external customers. The geographical location of customers is based on the location at which the goods were delivered or the services were provided.

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
The PRC	**32,968**	31,763
North America	**126,833**	132,634
Europe	**16,776**	23,387
Asia Pacific (exclusive of the PRC)	**11,519**	11,893
Australia	**21,396**	6,223
	209,492	205,900

4 SEGMENT REPORTING

In a manner consistent with how the Group manages its business and the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified four reportable segments, namely Manufacturing and sales of wooden products, Retail business, Projects of outdoor wooden products and Manufacturing and sales of renewable energy products. No operating segments have been aggregated to form the above reportable segments.

— Manufacturing and sales of wooden products: manufacturing and sales of outdoor wooden products to both domestic and overseas customers, and trading of timber.

— Retail business: retail sales of outdoor wooden products through self-operated retail shops.

— Projects of outdoor wooden products: engaged in projects of outdoor wooden products including the provision of design and installation services to domestic customers.

— Manufacturing and sales of renewable energy products: manufacturing and sales of biomass pellet fuel to both domestic and overseas customers.

(a) Segment results

For the purposes of assessing segment performance and allocating resources between segments, the Group's most senior executive management monitors the results attributable to each reportable segment on the following bases:

Reportable segment revenue represents the revenue derived from the Group's external customers by Manufacturing and sales of wooden products, Retail business, Projects of outdoor wooden products and Manufacturing and sales of renewable energy products, respectively.

The measure used for reportable segment profit/(loss) is "profit/(loss) after taxation (excluding the after tax effect of government subsidies)" of Manufacturing and sales of wooden products, Retail business, Projects of outdoor wooden products and Manufacturing and sales of renewable energy products, respectively.

A measurement of segment assets and liabilities is not provided regularly to the Group's most senior executive management and accordingly, no segment assets or liabilities information is presented.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the six months ended 30 June 2017 and 2016 is set out below:

	Six months ended 30 June 2017				
	Manufacturing and sales of wooden products *RMB'000*	**Retail business** *RMB'000*	**Projects of outdoor wooden products** *RMB'000*	**Manufacturing and sales of renewable energy products** *RMB'000*	**Total** *RMB'000*
Revenue derived from the Group's external customers	**197,290**	**2,083**	**–**	**10,119**	**209,492**
Inter-segment revenue	**43,393**	**–**	**–**	**–**	**43,393**
Reportable segment revenue	**240,683**	**2,083**	**–**	**10,119**	**252,885**
Reportable segment profit/(loss) (profit/(loss) after taxation (excluding the after tax effect of government subsidies))	**(4,489)**	**(1,237)**	**(68)**	**2,129**	**(3,665)**

	Six months ended 30 June 2016				
	Manufacturing and sales of wooden products *RMB'000*	Retail business *RMB'000*	Projects of outdoor wooden products *RMB'000*	Manufacturing and sales of renewable energy products *RMB'000*	Total *RMB'000*
Revenue derived from the Group's external customers	193,507	3,223	–	9,170	205,900
Inter-segment revenue	24,334	–	–	–	24,334
Reportable segment revenue	217,841	3,223	–	9,170	230,234
Reportable segment profit/(loss) (profit/(loss) after taxation (excluding the after tax effect of government subsidies))	(7,528)	(1,438)	(98)	15	(9,049)

(b) Reconciliations of reportable segment revenue and reportable segment loss

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Revenue		
Reportable segment revenue	**252,885**	230,234
Elimination of inter-segment revenue	**(43,393)**	(24,334)
Consolidated revenue	**209,492**	205,900
Loss		
Reportable segment loss derived from the Group's external customers	**(3,665)**	(9,049)
Government subsidies (net of tax)	**6,440**	10,521
Unallocated head office and corporate expenses	**(6,656)**	(5,647)
Consolidated loss after taxation	**(3,881)**	(4,175)

(c) Geographic information

No geographical segment information is presented as all the Group's revenue is derived from operations in the PRC and most of the Group's non-current assets are all located in the PRC.

5 SEASONALITY OF OPERATIONS

The Group's operations are not subject to significant seasonal fluctuations. Sales revenue recorded in the first and second half of the financial year is not affected by seasonal fluctuations.

6 OTHER REVENUE AND OTHER NET GAIN

(a) Other revenue

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Interest income on bank deposits	**2,222**	2,674
Government subsidies	**7,645**	14,029
Other	**798**	94
	10,665	16,797

The Group received unconditional government subsidies of RMB7,063,000 (six months ended 30 June 2016: RMB13,447,000) for the six months ended 30 June 2017. These government subsidies were granted to Fujian Zhangping Kimura Forestry Products Co., Ltd. ("Zhangping Kimura") for subsidising various expenses already incurred and were recognised as other revenue when they became receivable.

The Group recognised government subsidies as deferred income which compensates the Group for the cost of its land use right and the cost of infrastructure development. Government subsidies (deferred income) of RMB582,000 (six months ended 30 June 2016: RMB582,000) were recognised as other revenue for the six months ended 30 June 2017, which is on a systematic basis over the useful life of the relevant assets.

(b) Other net (loss)/gain

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Net foreign exchange gain/(loss)	**3,162**	(1,994)
Changes in fair value of derivative financial instruments — unrealised	**(4,731)**	786
Others	**269**	2,073
	(1,300)	865

7 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

(a) Finance costs

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Interest expense on bank loans and debentures	**7,400**	10,277
Less: Interest expense capitalised into construction in progress*	**(5,353)**	(4,601)
	2,047	5,676

* The borrowing costs have been capitalised at a rate of 3.21% (six months ended 30 June 2016: 3.17%) per annum for the six months ended 30 June 2017.

(b) Other items

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Cost of inventories	**181,226**	182,277
Depreciation of property, plant and equipment	**11,977**	8,552
Amortisation of lease prepayments	**967**	753
Operating lease charges for properties	**263**	498
Research and development costs	**15,189**	10,757

8 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Income tax in the consolidated statement of profit or loss represents:

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Current tax — PRC corporate income tax	**505**	41
Deferred tax (credit)/expense	**(181)**	859
	324	900

(i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands ("BVI"), the Group is not subject to any income tax in the Cayman Islands and the BVI.

No provision was made for Hong Kong Profits Tax as the Group did not earn any assessable profits subject to Hong Kong Profits Tax during the six months ended 30 June 2017 and 2016.

(ii) Zhangping Kimura applied and was approved for the High and New Technology Entities qualification under the PRC Corporate Income Tax Law and its relevant regulations during 2013, and therefore is entitled to the preferential income tax rate of 15% for a period of three years from 2013 to 2015 and 2016 to 2018.

The Group's other PRC subsidiaries are subject to PRC corporate income tax at the statutory rate of 25%.

9 LOSS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2017 is based on the loss attributable to equity shareholders of the Company of RMB3,881,000 (six months ended 30 June 2016: RMB4,175,000) and weighted average of 2,974,663,000 shares (six months ended 30 June 2016: 2,573,835,000 shares) in issue during the six months ended 30 June 2017, calculated as follows.

Weighted average number of ordinary shares

	Number of shares	
	2017	2016
	'000	*'000*
Issued ordinary shares at 1 January	**2,573,835**	2,573,835
Effect of issue of shares upon subscription on 10 February 2017	**400,798**	–
Weighted average number of ordinary shares at 30 June	**2,974,663**	2,573,835

There were no potential dilutive ordinary shares during the six months ended 30 June 2017 and 2016 and, therefore, diluted earnings per share are the same as the basic earnings per share.

10 INVENTORIES

	At 30 June 2017	At 31 December 2016
	RMB'000	*RMB'000*
Raw materials	**224,029**	167,927
Work in progress	**34,023**	43,691
Finished goods	**80,219**	107,882
	338,271	319,500

There was no write down of inventories during the six months ended 30 June 2017 and 2016.

11 TRADE AND OTHER RECEIVABLES

	At 30 June 2017	At 31 December 2016
	RMB'000	RMB'000
Trade and bills receivables *(note (a))*	**93,289**	128,400
Trade receivable from associates	**–**	3,510
Total trade receivables	**93,289**	131,910
Prepayment for raw materials	**127,751**	86,497
Derivative financial instruments	**1,065**	9,561
Gross amount due from customers for contract work *(note)*	**708**	708
Other receivables	**12,659**	11,210
	235,472	239,886

Note: The aggregate amount of costs incurred plus recognised profits less recognised losses to date, included in the gross amount due from customers for contract work at 30 June 2017 was Nil (31 December 2016: Nil). This balance includes retention receivables at 30 June 2017 of RMB708,000 (31 December 2016: RMB708,000), of which RMB708,000 (31 December 2016: RMB708,000) was expected to be recovered after more than one year.

All of the trade and other receivables, apart from those balances specified in note above are expected to be recovered or recognised as expense within one year.

(a) Ageing analysis

As at 30 June 2017, the ageing analysis of trade and bills receivables (which are included in trade and other receivables), based on invoice date and net of allowances of doubtful debts, is as follows:

	At 30 June 2017 *RMB'000*	At 31 December 2016 *RMB'000*
Within 1 month	**31,893**	36,499
1 to 2 months	**8,869**	23,305
2 to 3 months	**5,153**	13,181
Over 3 months	**47,374**	58,925
	93,289	131,910

Trade and bills receivables are normally due within 90 days to 180 days from the date of billing.

12 TRADE AND OTHER PAYABLES

	At 30 June 2017 *RMB'000*	At 31 December 2016 *RMB'000*
Trade payables *(note (a))*	**4,524**	6,892
Receipts in advance	**1,752**	3,138
Receipt in advance from an associate	**600**	230
Derivative financial instruments	**5,795**	7,692
Amount due to associate companies	**21,115**	–
Amount due to a director	**17**	17
Amount due to a related company	**283**	283
Other payables and accruals *(note i)*	**23,012**	15,077
	57,098	33,329

Note:

i Balance mainly represent salaries, wages, bonus and other accrued benefits, and payables for the purchase of property, plant and equipment.

All of the above balances are expected to be settled within one year or repayable on demand.

(a) A maturity analysis of the trade payables is as follows:

As at 30 June 2017, the maturity analysis of the trade payables balance is as follows:

	At 30 June 2017 *RMB'000*	At 31 December 2016 *RMB'000*
Due within 1 month or on demand	**3,900**	4,410
Due after 1 month but within 3 months	**624**	2,482
	4,524	6,892

13 DIVIDENDS

(i) The Board of Directors does not recommend the payment of an interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year approved and paid during the Period:

	Six months ended 30 June	
	2017 *RMB'000*	2016 *RMB'000*
No final dividend proposed in respect of the previous financial year (six months ended 30 June 2016: Nil)	**–**	–

At a Board meeting held on 24 March 2017, the Directors proposed no final dividend distribute for the year ended 31 December 2016, and the proposal is approved in the Annual General Meeting on 26 May 2017. Therefore no final dividend payable in respect of year ended 31 December 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

Results of operation

The Group achieved a slight growth in revenue by 1.7% to RMB209.5 million as compared to the corresponding period of the previous year ("2016 1H") (2016 1H: RMB205.9 million). The Group's operating results were slightly improved and recorded a slight decrease in loss of RMB294,000 to RMB3.9 million (2016 1H: RMB4.2 million).

Segment review

During the Period, the performance of our business segments is as follows:

	Segment revenue derived from external customers Six months ended 30 June			**% to total segment revenue derived from external customers Six months ended 30 June**		**Reportable segment (loss)/ profit** *(Note 1)* **Six months ended 30 June**	
	2017	2016	**Change**	**2017**	2016	**2017**	2016
	RMB'000	*RMB'000*	*%*	***%***	*%*	***RMB'000***	*RMB'000*
Manufacturing and sales of wooden products	**197,290**	193,507	2.0%	**94.2%**	94.0%	**(4,489)**	(7,528)
Retail business	**2,083**	3,223	–35.4%	**1.0%**	1.6%	**(1,237)**	(1,438)
Projects of outdoor wooden products	–	–	0.0%	**0.0%**	0.0%	**(68)**	(98)
Manufacturing and sales of renewable energy products	**10,119**	9,170	10.3%	**4.8%**	4.4%	**2,129**	15
	209,492	205,900	1.7%	**100.0%**	100.0%	**(3,665)**	(9,049)

Note 1: Reported segment (loss)/profit has excluded the after tax effect of government subsidies.

During the Period, the Group continued to consolidate its core business into the following segments: manufacturing and sales of wooden products, retail business and projects of outdoor wooden products. The Group's relatively new business in the manufacturing and sales of renewable energy products has successfully continued its operation for the fourth year since its commencement in 2014. The revenue derived from each of the four business segments during the Period were RMB197,290,000, RMB2,083,000, Nil and RMB10,119,000 (2016 1H: RMB193,507,000, RMB3,223,000, Nil and RMB9,170,000, representing 94.2%, 1.0%, 0.0% and 4.8% of the total revenue derived (2016 1H: 94.0%, 1.6%, 0.0% and 4.4%) respectively.

Manufacturing and sales of wooden products remains the Group's largest business segment, contributing 94.2% of the Group's revenue. The overall increase in revenue in this segment was contributed by the increase in revenue of landscape garden products and pet-home designs products. The revenue derived from such business segment increased by 2.0% to RMB197.3 million (2016 1H: RMB193.5 million). The loss recorded from the manufacturing and sales of wooden products segment was improved by a reduction of loss in the amount of approximately RMB3.0 million to RMB4.5 million (2016 1H: RMB7.5 million) due to customers demand for more high-end products which has a greater gross profit margin.

The Group's self-owned brand is engaged in the retail of leisure household products. Since its establishment in 2010, its sales network has grown to cover major cities in more than 10 provinces in the PRC with over 50 self-operated stores and distribution outlets. The Group aims to improve the operation by improving its cost control.

As mentioned above, the Group has continued its renewable energy business for the fourth successful year. The business involves the recycling of leftover sawdust from the production of our wooden products and turning into biomass pellet fuel. The biomass pellet fuel and its production process, are fully compliant with the national development directions on new energies in the PRC.

The Group's renewable energy business recorded an increase in revenue by 10.3% to RMB10.1 million (2016 1H: RMB9.2 million) during the Period. The profit increased sharply to RMB2.1 million (2016 1H: RMB15,000). As the operation becomes more stable, it is expected that this business will generate more profit for the Group in the future.

Market review

During the Period, the distribution of revenue from our global markets is as follows:

	Revenue Six months ended 30 June			**% to total revenue Six months ended 30 June**	
	2017	2016	**Change**	**2017**	2016
	RMB'000	*RMB'000*	*%*	*%*	*%*
The PRC	**32,968**	31,763	3.8%	**16%**	16%
North America	**126,833**	132,634	-4.4%	**61%**	64%
Europe	**16,776**	23,387	-28.3%	**8%**	11%
Asia Pacific (Exclusive of the PRC)	**11,519**	11,893	-3.1%	**5%**	6%
Australia	**21,396**	6,223	243.8%	**10%**	3%
	209,492	205,900	1.7%	**100%**	100%

The Group's aim is to take advantage of the opportunities within the market in order to develop the Group's business at a fast pace whilst complying with all relevant laws, rules and regulations.

Since 2016, the North American market has become the largest market of the Group, contributing 61% of the total revenue of the Group (2016 1H: 64%). Although the revenue from the North American market further declined by 4.4% to RMB126.8 million (2016 1H: RMB132.6 million), the rate of decline is slower. However, the US Federal Reserve may further hike interest rates or start to shrink the balance sheet, which may reduce the US fixed asset investments in the remaining of 2017. The Group will closely monitor and operate the market through enhancing our products' competitiveness.

Despite the slowdown in the growth of the PRC fixed asset investment during the Period, the Group's revenue from the PRC market recorded an overall slight increase to RMB33.0 million contributing 16% of the total revenue, which is the same as the corresponding period last year. The GDP of the PRC has recorded a 6.9% growth in the first and second quarters of 2017, representing a rise of 0.2% compared with that of 2016. If the trend continues, 2017 would be the first year that the PRC's growth rate exceeds the preceding year since 2010. The Group envisages that the PRC market will start to grow and recover along with the economy.

Germany is the largest market in Europe to our Group. Although the GDP of Germany is unceasingly growing but the growth rate for permits granted for dwelling construction has recorded a slowdown comparing to a robust increment last year. We noticed that the customers have been cautious in the first half of 2017, being the major reason for the Group's decrease in revenue from the European market by 28.3% to RMB16.8 million (2016 1H: RMB23.4 million). But the Group could see the situation is improving from the end of the second quarter of 2017, so we expect a rebound in sales in the second half of the year.

The Australian market has become the third-largest market during the Period, contributing 10% (2016 1H: 3%) of the Group's total revenue. The Group recorded a strong growth by 243.8% to RMB21.4 million (2016 1H: RMB6.2 million) due to the successful introduction of landscape garden products in the region. The Group expects that it could maintain the growth in the second half of the year.

FINANCIAL REVIEW

Revenue and gross profit margin by product category

	Revenue Six months ended 30 June			% to total revenue Six months ended 30 June		Gross margin Six months ended 30 June	
	2017	2016	**Change**	**2017**	2016	**2017**	2016
	RMB'000	*RMB'000*	%	**%**	%	**%**	%
Timber houses and their related parts and structures	**103,322**	129,949	–20.5%	**49.3%**	63.1%	**11.8%**	7.9%
Leisure household products							
Outdoor and indoor furniture	**8,617**	18,107	–52.4%	**4.1%**	8.8%	**12.7%**	11.7%
Recreational products	**9,773**	8,062	21.2%	**4.7%**	3.9%	**18.6%**	1.8%
Landscape garden products	**50,159**	19,763	153.8%	**24.0%**	9.6%	**12.9%**	13.4%
Pet-home designs products	**14,074**	6,502	116.5%	**6.7%**	3.2%	**18.7%**	18.6%
Trading of timber	**13,428**	14,347	–6.4%	**6.4%**	7.0%	**9.8%**	16.1%
Renewable energy products	**10,119**	9,170	10.3%	**4.8%**	4.4%	**27.8%**	53.5%
Total	**209,492**	205,900	1.7%	**100.0%**	100.0%	**13.5%**	11.5%

Despite a 20.5% drop in the revenue of timber houses and their related parts and structures to RMB103.3 million (2016 1H: RMB129.9 million), it remains the largest product category income stream for the Group during the Period, representing 49.3% (2016 1H: 63.1%) of the total revenue for the Period. The decrease was mainly attributable to the decrease in revenue from the US market.

Among the leisure household products, the revenue of landscape garden products increased by 153.8% to RMB50.2 million (2016 1H: RMB19.8 million) and has become the second largest product category income stream of the Group, representing 24.0% (2016 1H: 9.6%) of total revenue for the Period. The increase was mainly due to the strong growth in the Australian market and the recovery of the North American market.

The revenue of pet-home designs products has been growing since 2015 from around RMB5 million to RMB14.1 million, the growth was mainly contributed by the sales in the German and the PRC market.

The Group has not only focused on the sales of our products, but also on the development of products to enhance the products' durability and to increase their diversity. During the Period, the overall gross profit margin improved to 13.5% (2016 1H: 11.5%) due to an increase in the customers' demand of our high-end products by virtue of our research and development effort. The Group will continue to enhance the overall competitiveness in the market to capture new business opportunities.

Other revenue

Other revenue decreased to RMB10.7 million for the Period from RMB16.8 million for 2016 1H as a result of the decrease in government subsidies received.

Other net (loss)/gain

The Group recorded other net loss of RMB1.3 million for the Period (2016 1H: RMB0.9 million profit), which was primarily a result of the net foreign exchange gain and changes in fair value of derivative financial instruments during the Period.

Selling and distribution expenses

Our selling and distribution expenses decreased to RMB7.7 million (2016 1H: RMB11.5 million), which was a result of cost control.

Administrative expenses

Our administrative expenses increased to RMB31.3 million (2016 1H: RMB27.4 million), which was a result of the reinforcement of research and development.

Finance costs

Our finance costs decreased to RMB2.0 million during the Period (2016 1H: RMB5.7 million), which was mainly due to the decrease in bank borrowings.

Income tax

Our income tax decreased to RMB0.3 million (2016 1H: RMB0.9 million), primarily due to a decrease in profit before taxation of subsidiaries during the Period.

Loss for the Period

As a result of the foregoing factors, the Group has recorded a loss of RMB3.9 million for the Period (2016 1H: RMB4.2 million). Loss before taxation amounted to RMB3.6 million (2016 1H: RMB3.3 million).

Liquidity and capital resources

The Group principally meets its working capital and other capital needs through operating cash flows and proceeds from bank borrowings. As at 30 June 2017, the Group had current assets of RMB881.7 million (31 December 2016: RMB882.5 million), of which bank deposits and cash (including pledged deposits) were RMB306.0 million (31 December 2016: RMB321.2 million). To better manage our funds, the Group's cash is generally deposited with banks and denominated mostly in RMB. As at 30 June 2017, the total available banking facilities of the Group amounted to RMB423.6 million (31 December 2016: RMB532.0 million), banking facilities utilised as at 30 June 2017 were RMB358.6 million (31 December 2016: RMB396.4 million) and these bank borrowings were denominated in RMB, EUR and USD.

As at 30 June 2017, the ratio of total borrowings to total assets and the ratio of net borrowings to total equity of the Group were 22.7% and 5.9% respectively (31 December 2016: 25.5% and 8.2% respectively), current ratio and quick ratio were 2.1:1 and 1.3:1 respectively (31 December 2016: 2.1:1 and 1.3:1 respectively).

Pledge of assets

As at 30 June 2017, the Group pledged its plant and machinery, lease prepayments and buildings held for own use with a net book value of RMB223.5 million (31 December 2016: RMB229.4 million) and deposits with banks of RMB186.9 million (31 December 2016: RMB147.2 million) mainly for the purpose of securing bank loans and financial derivative contracts from the banks to the Group.

Capital expenditure

During the Period, the Group's total expenditure in respect of property, plant and equipment, lease prepayments and non-current prepayments for acquisitions of property, plant and equipment amounted to RMB43.8 million (2016 1H: RMB26.5 million).

Contingent liabilities

The Group has no significant contingent liabilities as at 30 June 2017.

Significant investment, material acquisitions and disposals of subsidiaries, future plans for significant investments or acquisition of capital assets

There was no significant investment, material acquisition and disposal of subsidiaries by the Company. The Group currently has no plan to make any significant investment in or acquisition of capital assets, but will continue seeking potential investment or acquisition opportunities according to the Group's development needs.

Foreign currency risks

The Group's sales are mainly denominated in USD and RMB while our cost of sales and operating costs are mainly denominated in RMB. Therefore, the Group's profit margin would be affected if RMB appreciates against USD as the Group may not able to reflect the appreciation in selling prices to overseas customers that were determined in USD. In response to this, the Group manages the fluctuations in the exchange rate of RMB against USD by entering into foreign currency forward contracts denominated in USD and RMB with banks when sales contracts were entered with overseas customers. As at 30 June 2017, the Group has net outstanding USD denominated forward foreign currency contracts of USD43.4 million (31 December 2016: USD37.9 million). All the contracts are to be settled within one year.

With the increasing level of our overseas purchases, the Group also manages the foreign exchange risks by matching the cash inflow from our export sales denominated in USD with the cash outflow from our import of timber denominated in USD.

Use of net proceeds from the global offering, placing, subscription and open offer

The shares of the Company were listed on the Main Board of the Stock Exchange on 6 July 2012. Net proceeds from the global offering were approximately HK$144.3 million (after deducting the underwriting commission and relevant expenses).

On 26 June 2014, the Company issued 200,000,000 new ordinary shares of HK$0.01 each at HK$0.80 per share by way of placing (the "June 2014 Placement"). On 7 October 2014, the Company issued 165,000,000 new ordinary shares of HK$0.01 each at HK$0.93 per share by way of placing (the "October 2014 Placement"). On 5 August 2015, the Company issued 272,600,000 new ordinary shares of HK$0.01 each at HK$0.55 per share by way of placing (the "August 2015 Subscription"). On 21 December 2015, the Company issued 857,945,000 new ordinary shares of HK$0.01 each at HK$0.20 per share by way of Open Offer (the "December 2015 Open Offer"). On 10 February 2017, the Company issued 514,500,000 new ordinary shares of HK$0.01 each at HK$0.13 per share by way of placing (the "February 2017 Subscription"). The net proceeds from the issue of new shares under the June 2014 Placement, October 2014 Placement, August 2015 Subscription, December 2015 Open Offer, February 2017 Subscription after deducting related transaction costs, were around HK$155.0 million, HK$148.0 million, HK$149.7 million, HK$170.0 million, HK$66.7 million respectively.

As at 30 June 2017, all the unutilised proceeds were deposited in licensed banks in Hong Kong and the PRC. A breakdown of the use of net proceeds is set forth in the table below:

	The financing of the acquisition of automated production machinery and equipment *HK$' million*	**Establishing new production facilities** *HK$' million*	**Establishing own-brand self-operated store network** *HK$' million*	**Merger and acquisition of small to medium sized companies, other timber processing plants, and/or other resources** *HK$' million*	**Own-brand promotion and other marketing events** *HK$' million*	**Increasing and enhancing our research and development activities** *HK$' million*	**General working capital** *HK$' million*	**Total** *HK$' million*
From global offering								
Amount of net proceeds	N/A	41.8	39.8	27.9	11.1	9.8	13.9	144.3
Percentage to total net proceeds	N/A	29.0%	27.6%	19.3%	7.7%	6.8%	9.6%	100.0%
Utilised amount as at 30 June 2017	N/A	41.8	39.8	27.9	11.1	9.8	13.9	144.3
Unutilised amount as at 30 June 2017	N/A	–	–	–	–	–	–	–
From June 2014 Placement								
Amount of net proceeds	N/A	125.0	N/A	N/A	N/A	N/A	30.0	155.0
Percentage to total net proceeds	N/A	80.6%	N/A	N/A	N/A	N/A	19.4%	100.0%
Utilised amount as at 30 June 2017	N/A	125.0	N/A	N/A	N/A	N/A	30.0	155.0
Unutilised amount as at 30 June 2017	N/A	–	N/A	N/A	N/A	N/A	–	–
From October 2014 Placement								
Amount of net proceeds	N/A	73.0	N/A	50.0	N/A	N/A	25.0	148.0
Percentage to total net proceeds	N/A	49.3%	N/A	33.8%	N/A	N/A	16.9%	100.0%
Utilised amount as at 30 June 2017	N/A	73.0	N/A	27.3	N/A	N/A	25.0	125.3
Unutilised amount as at 30 June 2017	N/A	–	N/A	22.7	N/A	N/A	–	22.7
From August 2015 Subscription								
Amount of net proceeds	N/A	74.9	N/A	N/A	N/A	N/A	74.8	149.7
Percentage to total net proceeds	N/A	50.0%	N/A	N/A	N/A	N/A	50.0%	100%
Utilised amount as at 30 June 2017	N/A	74.9	N/A	N/A	N/A	N/A	74.8	149.7
Unutilised amount as at 30 June 2017	N/A	–	N/A	N/A	N/A	N/A	–	–
From December 2015 Open Offer								
Amount of net proceeds	119.0	N/A	N/A	N/A	N/A	17.0	34.0	170.0
Percentage to total net proceeds	70.0%	N/A	N/A	N/A	N/A	10.0%	20.0%	100%
Utilised amount as at 30 June 2017	87.4	N/A	N/A	N/A	N/A	17.0	34.0	138.4
Unutilised amount as at 30 June 2017	31.6	N/A	N/A	N/A	N/A	–	–	31.6
From February 2017 Subscription								
Amount of net proceeds	N/A	N/A	N/A	N/A	N/A	27.0	39.7	66.7
Percentage to total net proceeds	N/A	N/A	N/A	N/A	N/A	40.5%	59.5%	100%
Utilised amount as at 30 June 2017	N/A	N/A	N/A	N/A	N/A	19.5	39.7	59.2
Unutilised amount as at 30 June 2017	N/A	N/A	N/A	N/A	N/A	7.5	–	7.5

Human resources

As at 30 June 2017, we employed a total of 523 (30 June 2016: 618) full time employees mainly in the PRC and Hong Kong including management staff, product designers, technicians, salespersons and workers. The Group's total expenses on the remuneration of employees for the Period were RMB15.2 million (2016 1H: RMB18.7million). The Group has been consistently increasing production process automation, strengthening the training of staff with an emphasis on high-technique processing with a mission on the continuous development and enhancing of competitiveness. The Group offered highly competitive salary package, as well as discretionary bonuses and contribution to social insurance to its employees.

The Group's emolument policies are formulated based on the performance of individual employee which will be reviewed periodically. Apart from the provident fund scheme (operated in accordance with the provisions of the Mandatory Provident Fund Schemes Ordinance for Hong Kong employees) or social insurance (including retirement pension insurance, medical insurance, unemployment insurance, injury insurance and maternity insurance for the PRC employees), discretionary bonuses and share options may also be awarded to employees according to the assessment of individual performance. Since the adoption of the share option scheme on 15 June 2012 and up to 30 June 2017, no options have been granted.

Events after the reporting period

On 7 July 2017, a wholly-owned subsidiary of the Company entered into an agreement with Fujian Wancheng Property Development Limited* to dispose of the land use rights in relation to two parcels of land located in Zhangping at a consideration of RMB30,000,000.

The Directors consider that the disposal would allow the Group to unlock the value of its investment in the land use rights and to realise cash resources in improving the liquidity and strengthening the financial position of the Group.

Save as disclosed above, the Group has no material events after the reporting period.

PROSPECTS

In 2017, the US Federal Reserve raised interest rates twice and unveiled a plan on normalizing balance sheet. This added great uncertainty to the second half of the year. The economic data of Germany continued to show improvement, we expect that the revenue from Germany, which is the largest market in Europe to the Group, in the second half of the year would be improved. As for China, recent economic data beat expectations and the Group's revenue for the Period from China seems to be stabilized. We hope that the demand of China and Asia-Pacific Region will gradually recover, bringing more revenue to the Group.

During the Period, the Group successfully introduced landscape garden products in Australia and we hope that the Australian market could become one of our major sales regions in the coming years. This could help the Company develop a more diversified revenue source and customer base. The Group will continue seeking new business opportunities.

Meanwhile, by virtue of the mature self-owned "Merry Garden" brand and the impeccable strategy for the Group's development of renewable energy products, the Group looks forward to making further breakthroughs in expanding our market share internationally.

The development during the Period has provided a solid foundation for the Group's further growth in the coming years.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

There was no purchase, sale or redemption by the Company, or any of its subsidiaries, of any listed securities of the Company during the Period and until the date of this announcement.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Throughout the Period and up to the date of this announcement, the Company has complied with the principles set out in the Corporate Governance Code, except code provision C.1.2 of the Corporate Governance Code as explained below.

According to code provision C.1.2, the management should provide all members of the Board with monthly updates giving a balanced and understandable assessment of the Company's performance, position and prospects in sufficient detail to enable the Board as a whole and each Director to discharge their duties under Rule 3.08 and Chapter 13 of the Listing Rules.

The Company has deviated from C.1.2 in that while the management has updated most of the Directors on a monthly basis about the business operation and performance of the Company, not all the Directors received such updates as the monthly updates were conducted on-site at the Group's factory in China. Members of the Board who did not attend such on-site meetings did not receive the updates. However, the management would provide detailed updates to all the Directors on a half-yearly and yearly basis. In the event that there are any significant updates to be provided, the management will update all the Directors as early as practicable for discussion and the passing of resolution. The Company also has in place a system for every Director to make enquiries with the senior management about the business operation of the Group and to give suggestions or feedback in the event such Director is not able to attend the monthly on-site update meetings.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

Pursuant to a resolution passed by the Board on 15 June 2012, the Company has adopted the Model Code as its own code of conduct for dealing in securities of the Company by the Directors. Specific enquiries have been made with the Directors, and all Directors confirmed that they have complied with the required standards set out in the Model Code regarding their securities transactions for the Period.

AUDIT COMMITTEE

The audit committee of the Company together with the management have reviewed with management the accounting principles and policies adopted by the Group and discussed auditing, internal control and financial reporting matters, and also reviewed the unaudited interim financial report for the Period.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

The Group's interim results for the six months ended 30 June 2017 have been published on the websites of the Stock Exchange and of the Company at http://www.merrygardenholdings.com. The Company's interim report for the Period will be dispatched to the Shareholders in due course.

DEFINITIONS

"Board"	the board of Directors
"Company"	China Environmental Technology and Bioenergy Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange
"Corporate Governance Code"	Corporate Governance Code contained in Appendix 14 to the Listing Rules
"Directors"	the directors of the Company
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	The Hong Kong Special Administrative Region of the PRC
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules
"Period"	the six months ended 30 June 2017
"PRC" or "China"	the People's Republic of China, and for the purpose of this announcement, excludes Hong Kong, The Macao Special Administrative Region of the PRC and Taiwan
"RMB"	Renminbi, the lawful currency of the PRC
"Share(s)"	ordinary share(s) of HK$0.01 each in the share capital of the Company

"Shareholders"	the shareholders of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"USD"	United States dollars, the lawful currency of United States
"%"	per cent.

By order of the Board of
China Environmental Technology and Bioenergy Holdings Limited
Xie Qingmei
Chairman

Hong Kong, 31 August 2017

As at the date of this announcement, the executive Directors are Ms. Xie Qingmei and Mr. Wu Zheyan, the non-executive Director is Mr. Wu Dongping, and the independent non-executive Directors are Mr. Lam Hin Chi, Prof. Jin Zhongwei and Prof. Su Wenqiang.

* *For identification purposes only*