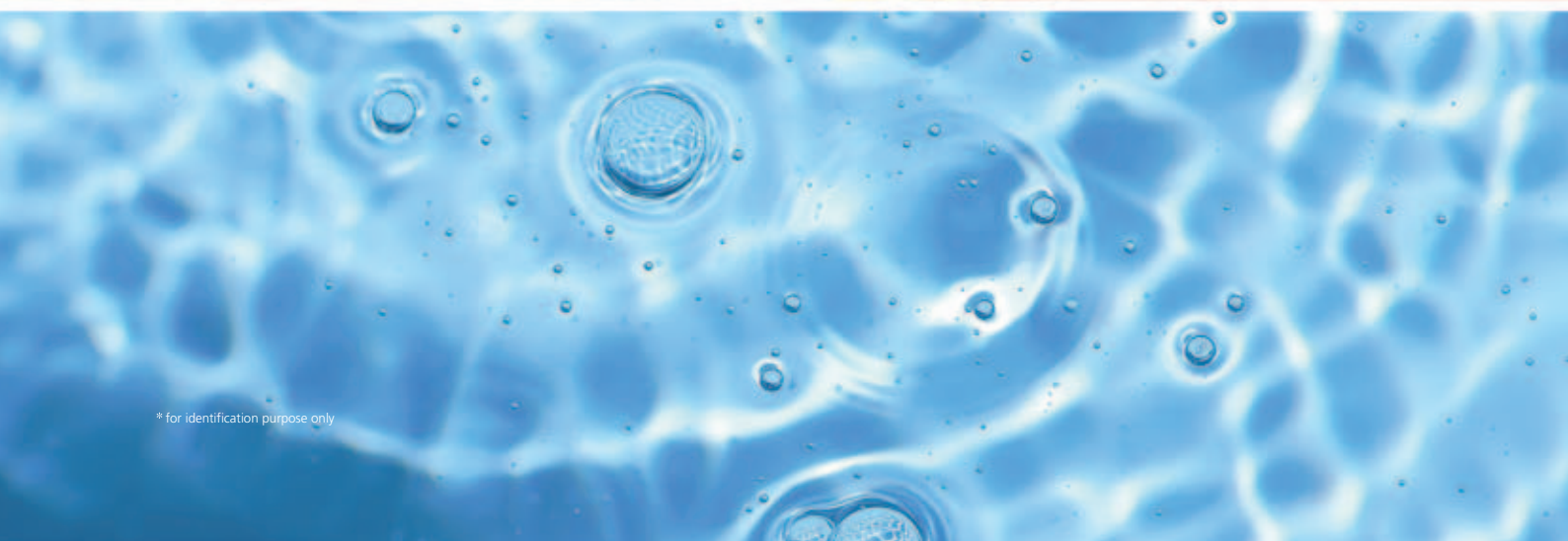
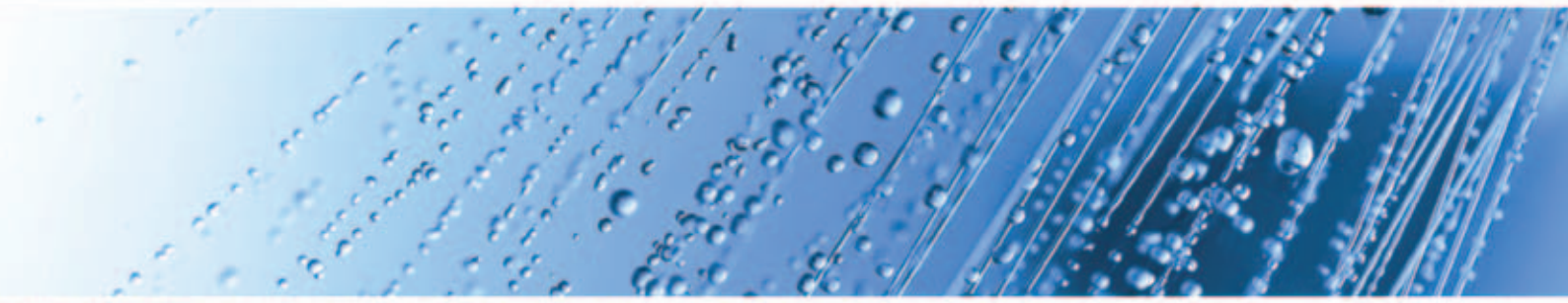




中國水業集團有限公司\*  
CHINA WATER INDUSTRY GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)  
Stock Code : 1129

## Interim Report 2012



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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Mr. Wang De Yin (*Chairman and Chief Executive Officer*)

Mr. Liu Feng

Mr. Lin Yue Hui

Ms. Chu Yin Yin, Georgiana

Ms. Deng Xiao Ting (Appointed on 19 July 2012)

Mr. Yang Bin (*Chief Executive Officer*)

(Resigned on 23 April 2012)

Mr. Tang Hui Ping (Resigned on 19 July 2012)

### Independent Non-Executive Directors

Mr. Chang Kin Man

Mr. Wu Tak Lung

Mr. Guo Chao Tian (Appointed on 15 June 2012)

Mr. Gu Wen Xuan (Resigned on 15 June 2012)

### AUDIT COMMITTEE

Mr. Chang Kin Man (*Chairman*)

Mr. Wu Tak Lung

Mr. Guo Chao Tian (Appointed on 15 June 2012)

Mr. Gu Wen Xuan (Resigned on 15 June 2012)

### REMUNERATION COMMITTEE

Mr. Chang Kin Man (*Chairman*)

Mr. Wu Tak Lung

Mr. Liu Feng

### NOMINATION COMMITTEE

Mr. Wang De Yin (*Chairman*)

(Appointed on 19 January 2012)

Mr. Chang Kin Man (Appointed on 19 January 2012)

Mr. Wu Tak Lung (Appointed on 19 January 2012)

### INVESTMENT COMMITTEE

Mr. Wang De Yin (*Chairman*)

Mr. Liu Feng

Mr. Lin Yue Hui (Appointed on 16 March 2012)

Mr. Tang Hui Ping

Mr. Liu Peng Cheng (Appointed on 16 March 2012)

Mr. Yang Bin (Resigned on 16 March 2012)

Mr. Chang Kin Man (Resigned on 16 March 2012)

## COMPANY SECRETARY

Ms. Chu Yin Yin, Georgiana

## PRINCIPAL BANKERS

### PRC

Agricultural Bank of China

Bank of China

Industrial and Commercial Bank of China

### Hong Kong

DBS Bank (Hong Kong) Limited

The Hongkong and Shanghai Banking Corporation Limited

Hang Seng Bank Limited

Bank of China (Hong Kong) Limited

Chiyu Banking Corporation Limited

## LEGAL ADVISERS TO HONG KONG LAWS

Reed Smith Richards Butler

Robertsons Solicitors & Notaries

Johnny K.K. Leung & Company

Ng & Shum Solicitors & Notaries in association  
with D&S Law Firm

## AS TO CAYMAN ISLANDS LAWS

Conyers Dill & Pearman

## COMPLIANCE ADVISOR

South West Capital Limited

## AUDITORS

SHINEWING (HK) CPA Limited

## INTERNAL CONTROL AUDITOR

SHINEWING Risk Services Limited

## REGISTERED OFFICE

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

## **CORPORATE INFORMATION** *(Continued)*

### **PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE**

Butterfield Fulcrum Group (Cayman) Limited  
Butterfield House, 68 Fort Street  
P.O. Box 609  
Grand Cayman KY1-1107  
Cayman Islands

### **HONG KONG BRANCH SHARE REGISTRAR OFFICE**

Union Registrars Limited  
18/F., Fook Lee Commercial Centre, Town Place  
33 Lockhart Road  
Wanchai, Hong Kong

### **HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS**

Room 1207, 12th Floor  
West Tower, Shun Tak Centre  
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Sheung Wan, Hong Kong

### **CONTACTS**

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### **STOCK CODE**

1129





# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012

	Notes	Six months ended 30 June	
		2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)
Revenue	4	<b>143,963</b>	106,163
Cost of sales		<b>(85,060)</b>	(61,442)
Gross profit		<b>58,903</b>	44,721
Other operating income		<b>5,234</b>	5,128
Selling and distribution expenses		<b>(6,439)</b>	(5,432)
Administrative expenses		<b>(38,341)</b>	(38,785)
Finance costs	6	<b>(22,292)</b>	(15,670)
Recovery of impairment loss on loan receivable		<b>9,275</b>	–
Waiver of loan interest		<b>13,982</b>	–
Share of results of associates		<b>(2,598)</b>	(5,815)
Change in fair value of convertible bonds		–	(7,208)
Change in fair value of derivative financial instruments		–	(9,847)
Impairment loss recognised on available-for-sale investments		–	(6,644)
Impairment loss recognised on trade and other receivables		–	(20,709)
Loss on deemed partial disposal of an associate		–	(127,836)
Loss on redemption of convertible bonds		–	(1,340)
Profit (loss) before tax		<b>17,724</b>	(189,437)
Income tax expense	7	<b>(8,262)</b>	(4,211)
Profit (loss) for the period	8	<b>9,462</b>	(193,648)
Other comprehensive income for the period			
Exchange difference arising on translation		<b>8,520</b>	7,996
Change in fair value of available-for-sale investments		–	(6,644)
Share of other comprehensive income of associates		<b>946</b>	1,206
Other comprehensive income for the period		<b>9,466</b>	2,558
Total comprehensive income (expense) for the period		<b>18,928</b>	(191,090)

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME *(Continued)*

For the six months ended 30 June 2012

	Notes	Six months ended 30 June	
		2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)
Profit (loss) for the period attributable to:			
Owners of the Company		1,210	(200,493)
Non-controlling interests		8,252	6,845
		9,462	(193,648)
Total comprehensive income (expense) attributable to:			
Owners of the Company		9,375	(201,219)
Non-controlling interests		9,553	10,129
		18,928	(191,090)
<b>Earnings (loss) per share (HK cents)</b>			(Restated)
Basic and diluted	9	0.29	(55.23)

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2012

	Notes	At 30 June 2012 HK\$'000 (Unaudited)	At 31 December 2011 HK\$'000 (Audited)
<b>Non-current assets</b>			
Property, plant and equipment	11	108,003	97,250
Prepaid lease payments		42,555	43,002
Concession intangible assets		521,681	520,477
Goodwill		10,292	10,292
Available-for-sale investments		53,959	53,959
Interest in associates		36,446	37,962
		<b>772,936</b>	762,942
<b>Current assets</b>			
Inventories		47,231	45,602
Trade and other receivables	12	107,304	96,391
Prepaid lease payments		1,150	1,231
Amounts due from customers for contract works		31,914	27,225
Cash held at financial institutions		102	3,533
Bank balances and cash		111,344	88,301
		<b>299,045</b>	262,283
<b>Current liabilities</b>			
Trade and other payables	13	213,417	215,643
Amounts due to customers for contract works		4,474	4,252
Bank borrowings		35,595	35,397
Other loans		84,812	69,683
Amounts due to non-controlling shareholders of subsidiaries		3,130	3,059
Loan from an associate		2,773	2,757
Convertible bonds	14	–	73,459
Tax payables		6,599	5,921
		<b>350,800</b>	410,171
<b>Net current liabilities</b>		<b>(51,755)</b>	(147,888)
<b>Total assets less current liabilities</b>		<b>721,181</b>	615,054

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

At 30 June 2012

	Notes	At 30 June 2012 HK\$'000 (Unaudited)	At 31 December 2011 HK\$'000 (Audited)
<b>Capital and reserves</b>			
Share capital	15	245,166	410,332
Share premium and reserves		(54,042)	(307,016)
Equity attributable to owners of the Company		191,124	103,316
Non-controlling interests		209,908	200,355
<b>Total equity</b>		<b>401,032</b>	303,671
<b>Non-current liabilities</b>			
Bank borrowings		14,729	18,309
Other loans		70,343	70,686
Convertible bonds	14	148,142	138,568
Government grants		73,565	71,345
Deferred tax liabilities		13,370	12,475
		<b>320,149</b>	311,383
		<b>721,181</b>	615,054



# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2012

	Attributable to owners of the Company										Total	
	Share capital	Share premium	Share options reserve	Convertible bond equity reserve	Translation reserve	Reserve funds	Investment revaluation reserves	Accumulated losses	Sub-total	Non-controlling interests		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (Note 1)	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>At 1 January 2011 (audited)</b>	324,765	585,206	323	15,914	30,443	8,854	-	(516,612)	448,893	179,164	628,057	
Loss for the period	-	-	-	-	-	-	-	(200,493)	(200,493)	6,845	(193,648)	
Other comprehensive income (expense) for the period	-	-	-	-	5,918	-	(6,644)	-	(726)	3,284	2,558	
<b>Total comprehensive income (expense) for the period</b>	-	-	-	-	5,918	-	(6,644)	(200,493)	(201,219)	10,129	(191,090)	
Cancellation of share options	-	-	(323)	-	-	-	-	323	-	-	-	
Impairment loss recognised on available-for-sales investments	-	-	-	-	-	-	6,644	-	6,644	-	6,644	
Issue of shares	64,900	14,039	-	-	-	-	-	-	78,939	-	78,939	
Issue of shares upon conversion of convertible bonds	20,667	11,797	-	(1,464)	-	-	-	-	31,000	-	31,000	
Dividend paid to non-controlling shareholders	-	-	-	-	-	-	-	-	-	(717)	(717)	
<b>At 30 June 2011 (unaudited)</b>	410,332	611,042	-	14,450	36,361	8,854	-	(716,782)	364,257	188,576	552,833	

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(Continued)*

For the six months ended 30 June 2012

	Attributable to owners of the Company								Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Convertible bond equity reserve HK\$'000	Translation reserve HK\$'000	Reserve funds HK\$'000 (Note 1)	Accumulated losses HK\$'000	Sub-total HK\$'000	Non- controlling interests HK\$'000	
<b>At 1 January 2012 (audited)</b>	410,332	609,578	74,802	42,698	10,517	(1,044,611)	103,316	200,355	303,671
Profit for the period	-	-	-	-	-	1,210	1,210	8,252	9,462
Other comprehensive income for the period	-	-	-	8,165	-	-	8,165	1,301	9,466
<b>Total comprehensive income for the period</b>	-	-	-	8,165	-	1,210	9,375	9,553	18,928
Issue of shares upon conversion of convertible bonds	40,000	47,464	(9,031)	-	-	-	78,433	-	78,433
Capital reorganisation	(205,166)	(191,517)	-	-	-	396,683	-	-	-
<b>At 30 June 2012 (unaudited)</b>	245,166	465,525	65,771	50,863	10,517	(646,718)	191,124	209,908	401,032

Note:

- As stipulated in the relevant laws and regulations, certain subsidiaries operating in the People's Republic of China (the "PRC") are required to maintain certain statutory reserves (the "Reserve Funds"). Appropriations to the Reserve Funds are made out of net profit as reported in the PRC statutory financial statements. The amounts of appropriations are determined by the respective board of directors. All statutory reserves are for specific purposes and are not distributable in the form of dividends.

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2012

	Six months ended 30 June	
	2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	24,586	(32,480)
NET CASH USED IN INVESTING ACTIVITIES	(10,195)	(13,280)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	4,436	(3,132)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	18,827	(48,892)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	91,834	138,015
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	785	(468)
CASH AND CASH EQUIVALENTS AT 30 JUNE, represented by bank balances and cash and cash held at financial institutions	111,446	88,655

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2012

## 1. COMPANY INFORMATION

China Water Industry Group Limited (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the interim report.

The Company and its subsidiaries (the "Group") are principally engaged in provision of water supply and sewage treatment as well as construction services in the PRC.

## 2. BASIS OF PREPARATION

The condensed consolidated interim financial information have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting", issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2011, which have been prepared in accordance with Hong Kong Financial Reporting Standards.

The Group reported an unaudited consolidated profit attributable to owners of the Company of approximately HK\$1,210,000 for the period ended 30 June 2012 and had an unaudited consolidated net current liabilities of approximately HK\$51,755,000 as at 30 June 2012. The condition indicates the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liability in the normal course of business. Nevertheless, the directors of the Company are of the opinion that the Group will have sufficient working capital to meet its financial obligations as and when they fall due for the next twelve months from 30 June 2012 following the conversion of the Group's existing convertible bonds as disclosed in Note 14 to the condensed consolidated interim financial information.

## 3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated interim financial information has been prepared on the historical cost basis except for certain financial instruments which are measured at fair values.

The accounting policies and methods of computation used in the condensed consolidated interim financial information for the six months ended 30 June 2012 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011 except as described below.

In the current interim period, the Group has applied the following new or revised standards and amendments issued by the HKICPA.

Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets
Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets

The adoption of the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") has no material effect on the condensed consolidated interim financial information of the Group for the current and prior accounting periods.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

For the six months ended 30 June 2012

## 3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

The Group has not early applied the following new and revised HKASs, HKFRSs, amendments and interpretation that have been issued but are not yet effective.

Amendments to HKFRSs	Annual improvements to HKFRSs 2009 – 2011 cycle <sup>1</sup>
Amendments to HKFRS 7	Disclosures – Offsetting financial assets and financial liabilities <sup>1</sup>
	Mandatory effective date of HKFRS 9 and transition disclosures <sup>2</sup>
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated financial statements, joint arrangements and disclosure of interests in other entities: Transition guidance <sup>1</sup>
HKFRS 9	Financial instruments <sup>2</sup>
HKFRS 10	Consolidated financial statements <sup>1</sup>
HKFRS 11	Joint arrangements <sup>1</sup>
HKFRS 12	Disclosure of interests in other entities <sup>1</sup>
HKFRS 13	Fair value measurement <sup>1</sup>
Amendments to HKAS 1	Presentation of items of other comprehensive income <sup>3</sup>
HKAS 19 (as revised in 2011)	Employee benefits <sup>1</sup>
HKAS 27 (as revised in 2011)	Separate financial statements <sup>1</sup>
HKAS 28 (as revised in 2011)	Investments in associates and joint ventures <sup>1</sup>
Amendments to HKAS 32	Offsetting financial assets and financial liabilities <sup>4</sup>
HK(IFRIC) – INT 20	Stripping costs in the production phase of a surface mine <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2013.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2015.

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2012.

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2014.

Other than disclosed above, the directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the condensed consolidated interim financial information.

## 4. REVENUE

Revenue represents revenue arising from the provision of water supply services, sewage treatment services, water supply related installation and construction income and water supply and sewage treatment infrastructure construction income.

An analysis of the Group's revenues for the period is as follows:

	Six months ended 30 June	
	2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)
Water supply services	49,809	46,275
Sewage treatment services	17,417	12,305
Water supply related installation and construction income	68,087	41,765
Water supply and sewage treatment infrastructure construction income	8,650	5,818
	<b>143,963</b>	106,163



# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

For the six months ended 30 June 2012

## 5. SEGMENT INFORMATION

Operating segments and the amounts of each segment item reported in the condensed consolidated interim financial information, are identified from the financial information provided regularly to the board of directors of the Company, being the chief operating decision maker for the purposes of allocation resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

The Group is organised into a single operating segment as provision of water supply and sewage treatment as well as construction services primarily in the PRC and all revenue, expenses, results, assets and liabilities and capital expenditures are predominantly attributable to this single segment. Accordingly, no segment analysis by business is presented.

No geographical information is presented as the Group's business is principally carried out in the PRC (country of domicile) and the Group's revenue from external customers and non-current assets are in the PRC. No geographical information for other country is of a significant size to be reported separately.

## 6. FINANCE COSTS

	Six months ended 30 June	
	2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)
Interest on:		
– Interest on convertible bonds	–	11,591
– Imputed interest charged on convertible bonds	14,548	402
– Bank borrowings wholly repayable within five years	2,551	1,393
– Bank borrowings wholly repayable more than five years	763	850
– Other loans wholly repayable within five years	2,927	1,028
– Other loans wholly repayable more than five years	1,210	87
– Amounts due to non-controlling shareholders of subsidiaries	97	155
– Loan from an associate	196	164
	<b>22,292</b>	15,670

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

For the six months ended 30 June 2012

## 7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)
PRC Enterprise Income Tax ("EIT")		
– current period	7,367	3,189
Deferred tax	895	1,022
	<b>8,262</b>	<b>4,211</b>

Hong Kong Profits Tax has not been provided for in the condensed consolidated interim financial information for the six months ended 30 June 2012 and 2011 as there was no estimated assessable profit derived from Hong Kong for both periods.

Pursuant to the relevant laws and regulations in the PRC, certain subsidiaries are exempted from PRC EIT for two years from the first profit making year, followed by a 50% reduction for the next three years.

Under the Law of the EIT and Implementation Regulation of the Law of the EIT, the tax rate of the other PRC subsidiaries is at 25% for both periods.

## 8. PROFIT (LOSS) FOR THE PERIOD

	Six months ended 30 June	
	2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)
Profit (loss) for the period has been arrived at after charging (crediting):		
Staff costs including directors' emoluments		
– salaries, wages and other benefits	24,351	23,238
– retirement benefits scheme contributions	3,683	2,329
Total staff costs	<b>28,034</b>	25,567
Amortisation of prepaid lease payments	787	640
Amortisation of concession intangible assets (included in cost of sales)	10,188	7,646
Impairment loss recognised on trade and other receivables	–	20,709
Depreciation of property, plant and equipment	3,881	3,860
Loss (gain) on disposal of property, plant and equipment	292	(5)
Bank interest income	(201)	(501)
Net exchange loss	8	31

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

For the six months ended 30 June 2012

### 9. EARNINGS (LOSS) PER SHARE

The calculation of basic earnings (loss) per share is based on the profit (loss) for the period attributable to owners of the Company of approximately HK\$1,210,000 (2011: a loss of HK\$200,493,000) and on the weighted average number of 411,210,887 (2011 (restated): 363,021,269) ordinary shares during the period.

The weighted average of ordinary shares for the purpose of calculating basic loss per share for prior period have been retrospectively adjusted for the effect of share consolidation completed in September 2011.

Diluted earnings (loss) per share was same as the basic earnings (loss) per share for the six months ended 30 June 2012 and 2011, as the effect of the conversion of the Company's outstanding share options and convertible bonds would result in an increase in earnings per shares and a decrease in loss per shares for the six months ended 30 June 2012 and 2011 respectively.

*Note:* The computation of diluted loss per share does not assume the exercise of the Company's outstanding share options as exercise price of those options is higher than the average market price of shares for the period ended 30 June 2011. The Company has no outstanding share options as at 30 June 2012.

### 10. DIVIDENDS

The directors of the Company do not recommend the payment of any interim dividend for the both reporting periods.

### 11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2012, the Group acquired property, plant and equipment amounted to approximately HK\$12,171,000 (six months ended 30 June 2011: approximately HK\$2,968,000) and disposed of property, plant and equipment with carrying amount of approximately HK\$425,000 (six months ended 30 June 2011: approximately HK\$4,000).

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

For the six months ended 30 June 2012

### 12. TRADE AND OTHER RECEIVABLES

	At 30 June 2012 HK\$'000 (Unaudited)	At 31 December 2011 HK\$'000 (Audited)
Trade receivables	33,213	21,087
Less: impairment loss recognised	(8,578)	(8,531)
	<b>24,635</b>	12,556
Other receivables	18,104	16,556
Less: impairment loss recognised	(5,611)	(5,595)
	<b>12,493</b>	10,961
Loan receivables	141,886	152,911
Less: impairment loss recognised	(72,664)	(81,939)
	<b>69,222</b>	70,972
Deposits and prepayments	954	1,902
	<b>107,304</b>	96,391

The Group allows an average credit period of 30 days to 180 days given to the customers.

An aged analysis of trade receivables net of impairment loss recognised, based on invoice date was as follows:

	At 30 June 2012 HK\$'000 (Unaudited)	At 31 December 2011 HK\$'000 (Audited)
Within 90 days	11,568	5,399
91 to 180 days	4,830	4,636
181 to 365 days	5,190	2,278
Over 1 year	3,047	243
	<b>24,635</b>	12,556

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

For the six months ended 30 June 2012

### 13. TRADE AND OTHER PAYABLES

The following is an analysis of trade payables, presented based on the invoice date:

	<b>At 30 June 2012 HK\$'000 (Unaudited)</b>	At 31 December 2011 HK\$'000 (Audited)
Within 90 days	6,521	12,847
91 to 180 days	146	411
181 to 365 days	117	776
Over 1 year	3,532	2,027
	<b>10,316</b>	16,061
Other payables	<b>129,203</b>	115,100
Interest payables	<b>73,898</b>	84,482
	<b>213,417</b>	215,643

### 14. CONVERTIBLE BONDS

The Group issued two batches of convertible bonds in August 2011 ("CB3") and September 2011 ("CB4"). On 29 June 2012, the holder of CB3 fully converted CB3 into 80,000,000 ordinary shares of the Company.

CB3 and CB4 are bifurcated into a liability component and an equity component. The equity component is presented in equity heading "Convertible bonds equity reserve".

Movement of CB3 and CB4 are as follows:

	<b>CB3 HK\$'000</b>	<b>CB4 HK\$'000</b>	<b>Total HK\$'000</b>
<b>Liability component</b>			
At the beginning of the period	73,459	138,568	212,027
Imputed interest charges	4,974	9,574	14,548
Conversion to ordinary shares	(78,433)	–	(78,433)
	–	148,142	148,142
<b>Equity component</b>			
At the beginning of the period	9,031	65,771	74,802
Conversion to ordinary shares	(9,031)	–	(9,031)
	–	65,771	65,771
At the end of the period	–	213,913	213,913



# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

For the six months ended 30 June 2012

## 15. SHARE CAPITAL

	At 30 June 2012 (Unaudited)		At 31 December 2011 (Audited)	
	Number of shares	Amount HK\$'000	Number of shares	Amount HK\$'000
Authorised capital:				
<b>Ordinary shares of HK\$0.50 each</b>				
At the beginning of the period/year	2,000,000,000	2,000,000	8,000,000,000	800,000
Capital reorganisation ( <i>note i</i> )	2,000,000,000	-	-	-
Consolidation of ten shares of HK\$0.10 each into one share of HK\$1.00 each ( <i>note viii</i> )	-	-	(7,200,000,000)	-
Increase on 27 September 2011 ( <i>note viii</i> )	-	-	1,200,000,000	1,200,000
At the end of the period/year	4,000,000,000	2,000,000	2,000,000,000	2,000,000
<b>Convertible preference shares of HK\$0.10 each</b>				
At the beginning and the end of the period/year	2,000,000,000	200,000	2,000,000,000	200,000
Issued and fully paid:				
<b>Ordinary shares of HK\$0.50 each</b>				
At the beginning of the period/year	410,331,766	410,332	3,247,651,000	324,765
Capital reorganisation ( <i>note i</i> )	-	(205,166)	-	-
Conversion of convertible bonds ( <i>note ii</i> )	80,000,000	40,000	-	-
Conversion of convertible bonds ( <i>note iii</i> )	-	-	106,666,666	10,667
Conversion of convertible bonds ( <i>note iv</i> )	-	-	33,333,332	3,333
Conversion of convertible bonds ( <i>note v</i> )	-	-	66,666,666	6,667
Issue of shares upon placing ( <i>note vi</i> )	-	-	324,000,000	32,400
Issue of shares upon placing ( <i>note vii</i> )	-	-	325,000,000	32,500
Consolidation of ten shares of HK\$0.10 each into one share of HK\$1.00 each ( <i>note viii</i> )	-	-	(3,692,985,898)	-
At the end of the period/year	490,331,766	245,166	410,331,766	410,332

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

For the six months ended 30 June 2012

### 15. SHARE CAPITAL *(Continued)*

Note:

- (i) Pursuant to a special resolution passed by the Company's shareholders at an extraordinary general meeting held on 26 September 2011 and the approval granted by the Grand Court of Cayman Islands on 6 March 2012, the par value of every issued share of the Company was reduced from HK\$1.00 to HK\$0.50 by the reduction of HK\$0.50 on each issued share of par value of HK\$1.00 each (the "Capital Reduction"), with each such reduced share being treated as one fully paid up new share of par value HK\$0.50 each (the "New Shares").

Pursuant to an ordinary resolution passed by the Company's shareholders at an extraordinary general meeting held on 26 September 2011, immediately upon the Capital Reduction becoming effective, each authorised but un-issued share with a par value of HK\$1.00 each shall be sub-divided into 2 New Shares with a par value of HK\$0.50 each (the "Sub-division"). Immediately upon the Sub-division becoming effective, the number of authorised share capital of the Company was increased to 4,000,000,000 ordinary shares of HK\$0.50 each.

- (ii) On 29 June 2012, the holder of CB3 converted CB3 with nominal value of HK\$80,000,000 into 80,000,000 ordinary shares of HK\$0.50 each of the Company.
- (iii) On 3 March 2011, a convertible bonds holder converted convertible bonds with nominal value of HK\$16,000,000 into 106,666,666 ordinary shares of HK\$0.10 each of the Company.
- (iv) On 15 March 2011, a convertible bonds holder converted convertible bonds with nominal value of HK\$5,000,000 into 33,333,332 ordinary shares of HK\$0.10 each of the Company.
- (v) On 28 March 2011, a convertible bonds holder converted convertible bonds with nominal value of HK\$10,000,000 into 66,666,666 ordinary shares of HK\$0.10 each of the Company.
- (vi) On 6 April 2011, pursuant to a placing and subscription agreement entered into with existing shareholders, the Company placed out 324,000,000 new ordinary share of HK\$0.10 each in the Company at a price of HK\$0.13 per share. A sum of net amount approximately HK\$40,187,000 after deducting related expenses of approximately HK\$1,285,000, was raised and used as working capital of the Group.
- (vii) On 8 April 2011, pursuant to a placing and subscription agreement entered into with existing shareholders, the Company placed out 325,000,000 new ordinary share of HK\$0.10 each in the Company at a price of HK\$0.12 per share. A sum of net amount approximately HK\$38,752,000 after deducting related expenses of approximately HK\$1,223,000, was raised and used as working capital of the Group.
- (viii) Pursuant to a special resolution passed by the Company's shareholders at an extraordinary general meeting held on 26 September 2011, every ten shares of HK\$0.10 each in the issued and unissued share capital of the Company was consolidated into 1 share of HK\$1.00 (the "Share Consolidation") with effect from 27 September 2011. Immediately upon the Share Consolidation becoming effective, the authorised share capital of the Company was increased to HK\$2,000,000,000 divided into 2,000,000,000 ordinary shares of HK\$1.00 each.

All new shares issued during the period ended 30 June 2012 rank pari passu in all respects with other shares in issue.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

For the six months ended 30 June 2012

### 16. CAPITAL COMMITMENT

	<b>At 30 June 2012 HK\$'000 (Unaudited)</b>	At 31 December 2011 HK\$'000 (Audited)
Capital commitments contracted but not provided for, in respect of acquisition of concession intangible assets and property, plant and equipment	<b>1,034</b>	19,899

### 17. OPERATING LEASE COMMITMENTS

The Group leases certain of its factory premises, plant and staff quarters under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to five years. Rental was fixed at the inception of the lease. No provision for contingent rent and terms of renewal were established in the leases.

At the end of the reporting period, the Group had future minimum lease payments under non-cancellable operating leases which fall due as follows:

	<b>At 30 June 2012 HK\$'000 (Unaudited)</b>	At 31 December 2011 HK\$'000 (Audited)
Within one year	<b>2,453</b>	1,442
In the second to fifth years, inclusive	<b>3,006</b>	158
	<b>5,459</b>	1,600

### 18. EVENTS AFTER THE END OF THE INTERIM PERIOD

#### (1) Placing of shares

On 27 July 2012, the Company entered into a placing agreement with Kingston Securities Limited ("Kingston Securities"), the independent third parties, pursuant to which the Company has conditionally agreed to place, through Kingston Securities on a best effort basis, a maximum of 82,000,000 ordinary shares of the Company (the "Placing Shares") to not fewer than six placees who and whose ultimate beneficial owners are third parties independent of and are not connected persons of the Company.

On 14 August 2012, 82,000,000 Placing Shares have been placed by Kingston Securities to not less than six placees at the placing price of HK\$0.50 per Placing Shares.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

For the six months ended 30 June 2012

### 18. EVENTS AFTER THE END OF THE INTERIM PERIOD *(Continued)*

#### (2) Termination of acquisition of the sale interests

Pursuant to the sales and purchase agreement dated 1 December 2010 and the supplemental agreement dated 7 December 2011, the acquisition of the sale interests relating to 70% of the registered capital of Foshan City Gaoming Huaxin Sewage Treatment Company Limited\* (佛山市高明區華信污水處理有限公司) ("Gaoming Huaxin"), 100% of the registered capital of Sihui City South China Waterworks Development Co., Ltd.\* (四會市華南水務發展有限公司) ("Sihui South China"), and 100% interest of Boluo Da Xin Sewage Treatment Company Ltd.\* (博羅達信污水處理有限公司) ("Boluo Da Xin"), is subject to the fulfillment of the conditions precedent on or before 30 June 2012. The acquisition of 70% of the entire equity interests in Gaoming Huaxin had been completed on 30 September 2011. Based on the recent due diligence findings by the Company's PRC legal adviser, it revealed that there are contingent encumbrances on the equity interests in Sihui South China and the operation right of Boluo Da Xin. On the advice of the PRC legal adviser, the Company determined not to proceed the acquisition of Sihui South China and Boluo Da Xin (the "Remaining Acquisition") and to demand repayment of the outstanding amount owing from Top Vision Management Limited ("Top Vision"). On 21 August 2012, Mark Profit Group Holdings Limited, an indirect wholly-owned subsidiary of the Company ("Purchaser") entered into the deed of termination relating to the termination of the Remaining Acquisition with Top Vision, Da Xin Waterworks Management (Huizhou) Co., Ltd. and Mr. Yang Wei Hua.

#### (3) Repayment of loan receivables

On 21 August 2012, the Company and its subsidiary of Swift Surplus Holdings Limited (collectively as the "Lenders") entered into repayment agreements (the "Repayment Agreements") with the Sihui Sewage Treatment Co. Ltd.\* (四會市城市污水處理有限公司) and Top Vision (collectively as the "Borrowers") together with their respective guarantors, pursuant to which, the Borrowers shall repay to the Lenders the loan receivables of approximately HK\$58,430,000 together with interest accrued (the "Loan Receivables"). HK\$5,000,000 of the Loan Receivables will be repaid on or before 30 September 2012 and the remaining Loan Receivables shall be repaid on or before 31 December 2012. Impairment losses of approximately HK\$21,300,000 regarding the Loan Receivables have been provided during the financial years 2010 and 2011 respectively.

#### (4) Repayment of payment in advance

Pursuant to a deed dated 31 March 2011, Top Vision and owner of 30% of Gaoming Huaxin undertaken and warranted to Purchaser the compensation of payment in advance of RMB8,000,000 (the "Payment in Advance"). The Payment in Advance had been stated as a bad debt in the Gaoming Huaxin management accounts. On 21 August 2012, Top Vision and Purchaser entered into a supplemental deed and agreed the Payment in Advance to be repaid to the Purchaser on or before 30 December 2013.

Details of which have been set out in the Company's announcements dated 27 July 2012, 14 August 2012 and 21 August 2012 respectively.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

For the six months ended 30 June 2012

### 19. LITIGATION

#### (i) Super Sino Investment Limited ("Super Sino"), an indirectly wholly-owned subsidiary of the Company

In November 2007, the People's Government of Danzhou City and Super Sino entered into a net asset transfer agreement, pursuant to which all assets and liabilities of Danzhou City Water Company\* (儋州市自來水公司) ("Danzhou City Water") (currently known as Danzhou Qingyuan Water Industry Company Limited\* (儋州清源水務有限公司)) were transferred to Super Sino. On 26 June 2008, Super Sino was notified that Agricultural Bank of China, Danzhou Branch (the "Plaintiff") filed a claim regarding the liabilities transferred by Danzhou City Water with the Court against Danzhou City Water, Super Sino, Danzhou Urban Development Corporation and the People's Government of Danzhou City for the repayment of the loan principal of approximately RMB26,000,000 (equivalent to HK\$31,912,000) (31 December 2011: RMB26,000,000 (equivalent to HK\$31,735,000)) and the interests of approximately RMB49,193,000 (equivalent to HK\$60,380,000) (31 December 2011: RMB45,560,000 (equivalent to HK\$55,610,000)) arising from the defendants of Danzhou City Water and Super Sino to the Plaintiff.

On 13 November 2009, the Court issued a civil verdict, pursuant to which Super Sino was ordered to fully repay the loan principal of RMB26,000,000 together with the interest thereon.

On 17 December 2009, the Plaintiff made an appeal to the Higher People's Court of Hainan Province court seeking the fulfilment of the guarantee responsibility of Danzhou Urban Development Corporation.

On 15 December 2010, Higher People's Court of Hainan Province issued verdict, pursuant to which all the shares of Danzhou City Water owned by Super Sino (the "Shares") have been frozen from 15 December 2010 to 14 December 2012. The Company cannot transfer or dispose of the Shares during the period. According to the legal advice, the directors of the Company are of the opinion that the verdict will not impair the control of the Group over Danzhou City Water due to the following reasons:

- (1) Super Sino is still the legal owner of Danzhou City Water from 15 December 2010 to 14 December 2012.
- (2) As Danzhou City Water is engaged in the business of provision of water in the PRC which requires special license from the respective PRC government authorities. The procedures for the change of shareholding are complicated and require the approval from several PRC government authorities.

As at the date of this interim report, the directors of the Company are discussing the settlement arrangement with the Plaintiff and there is no demand for settlement from the Plaintiff at the moment. The principal of the said loan and the interest thereon have been included in the interim financial statements of the Group. The directors of the Company are of the opinion that the power to govern the financial and operating policies of Danzhou City Water are still vest on the Group.



# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

For the six months ended 30 June 2012

## 19. LITIGATION *(Continued)*

### (ii) Guangzhou Hyde Environmental Protection Technology Co. Ltd., an indirect wholly-owned subsidiary of the Company

Guangzhou Hyde Environmental Protection Technology Co. Ltd.\* (廣州市海德環保科技有限公司) (“Guangzhou Hyde”) (an indirect wholly-owned subsidiary of the Company) and Yunnan Chaoyue Gas Company Limited (雲南超越燃氣有限公司) (“Yunnan Chaoyue Gas”) entered into the cooperation contract dated 13 October 2010, pursuant to which Guangzhou Hyde shall paid a refundable deposit of HK\$10,000,000 (the “Deposit”) to Yunnan Chaoyue Gas for the purpose of obtaining the operation and management right of the Yunnan Dian Lake project (the “Project”). Pursuant to the cooperation contract, Yunnan Chaoyue Gas shall refund the Deposit to Guangzhou Hyde within nine months once it was unsuccessfully to obtain the Project. Yunnan Chaoyue Gas has failed to repay the aforesaid deposit to Guangzhou Hyde when it fell due despite Guangzhou Hyde’s repeated requests and demands. The Deposit was classified as loan receivable and fully impaired in 2011.

The dispute over cooperative contract between Guangzhou Hyde and Yunnan Chaoyue Gas was applied to Guangzhou Arbitration Commission (the “Commission”) for arbitration on 24 February 2012. The Commission accepted the case and started a trial on 5 June 2012. After the trial, arbitration tribunal ruled an award on 12 June 2012, adjudging that:

1. Yunnan Chaoyue Gas should pay Guangzhou Hyde the principal of RMB8,557,000 and overdue interests, which is calculated based on the principal of RMB8,557,000, at the lending interest rate announced by Guangzhou Hyde People’s Bank of China, for the period from 14 July 2011 to the date on which all such amounts are settled, subject to a limit of principal of RMB8,557,000.
2. The arbitration fees of RMB75,347 for this case should be borne by Yunnan Chaoyue Gas.

The above award confirmed the amount to be paid by Yunnan Chaoyue Gas to Guangzhou Hyde should be settled in one-off manner within 10 days from the date on which this award is served. Late payment will result in proceedings set out in article 229 of Civil Procedure Laws of the PRC. As Yunnan Chaoyue Gas has not performed repayment obligation under the award on time, Guangzhou Hyde applied to Kunming Intermediate People’s Court for civil enforcement on 21 July 2012, and Kunming Intermediate People’s Court has accepted such application. As at the date of this interim report, the case is in the process of execution by Kunming Intermediate People’s Court.

## 20. RELATED PARTY TRANSACTIONS

The balances and transactions with related parties at the end of reporting period are disclosed elsewhere in the condensed consolidated interim financial information.

### Compensation of key management personnel

The remuneration of directors and other members of key management during the period was as follows:

	Six months ended 30 June	
	2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)
Short-term benefits	2,042	1,901
Post-employment benefits	35	43
	<b>2,077</b>	1,944

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL PERFORMANCE

### RESULTS

#### Financial Results

For the six month ended 30 June 2012, the Group recorded a consolidated net profit of HK\$9.46 million. In comparison with the consolidated net loss of HK\$193.65 million in the corresponding period of 2011, the board of directors (“**Board**”) considered that the turnaround of the Group’s result was mainly attributable to the following factors:

- Improvement of gross profit by HK\$14.18 million mainly from construction service for water supply;
- recovery of impairment loss of HK\$9.28 million on loan receivable;
- waiver of loan interest of HK\$13.98 million by lenders;
- absence of the following losses and impairment losses in the aggregate amounts of HK\$172.25 million which were recognized in 2011:
  - HK\$127.84 million on deemed partial disposal of the associate, iMerchants Limited;
  - HK\$20.71 million on trade and other receivables;
  - HK\$17.06 million on change in fair value of convertible bonds and derivative financial instruments; and
  - HK\$6.64 million on available-for-sale investments.

#### Revenue and Gross Profit

For the period ended 30 June 2012, the Group has achieved a steady growth in revenue and gross profit, which amounted to HK\$143.96 million and HK\$58.90 million respectively. This represented a growth of 35.61% in revenue and 31.71% in gross profit in comparison with the corresponding period of 2011. The improvement in revenue and gross profit are contributed by the increase of construction service for water supply and the newly acquired sewage treatment plant of Foshan City Gaoming Huaxin Sewage Treatment Company Limited\* (佛山市高明區華信污水處理有限公司) (“**Gaoming Huaxin**”). The main contributors were Yichun Water Industry Co., Ltd (“**Yichun Water**”) and Yingtan Water Supply Co., Ltd (“**Yingtan Water**”), which collectively accounted for 74.94% of the revenue and 80.44% of gross profit. The summary of revenue and gross profit is as follows:

	Revenue				Gross Profit			
	2012		2011		2012		2011	
	HK\$'M	%	HK\$'M	%	HK\$'M	%	HK\$'M	%
Water supply business	49.81	34.60	46.27	43.58	20.03	34.00	16.07	35.93
Sewage treatment business	17.42	12.10	12.31	11.60	7.54	12.80	4.73	10.58
Construction services business	76.73	53.30	47.58	44.82	31.33	53.20	23.92	53.49
<b>Total</b>	<b>143.96</b>	<b>100</b>	106.16	100	<b>58.90</b>	<b>100</b>	44.72	100

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### FINANCIAL PERFORMANCE *(Continued)*

#### RESULTS *(Continued)*

##### Other Operating Income

In the first half of 2012, other operating income was HK\$5.23 million (2011: HK\$5.13 million), at a similar level comparing with the first half of 2011. The income included mainly interest income of HK\$1.02 million, disinfection handling fees of HK\$2 million and rental income of HK\$0.95 million from the provision of accommodation to staff. For the interim period, no guaranteed profit was paid by the respective government in the PRC for the associated water plant (2011: HK\$1.76 million). This loss effect was offset by the increased in income of disinfection handling fees.

##### Selling and distribution expenses and administrative expenses

In the first half of 2012, selling and distribution expenses together with administrative expenses were HK\$44.78 million (2011: HK\$44.22 million), which was at a similar level comparing with the first half of 2011. These expenses mainly consisted of legal and professional fees of HK\$2.10 million, staff cost of HK\$22.11 million, repair and maintenance of HK\$1.49 million, rent and rates of HK\$1.62 million and depreciation of HK\$2.84 million.

##### Finance costs

In the first half of 2012, the finance costs of the Group were HK\$22.29 million, representing an increase of HK\$6.62 million from HK\$15.67 million for the same period of last year. The increase was mainly on the additional imputed interest charged on new convertible notes issued by the Company in 2011. The imputed interest was a result of the accounting treatment and it did not affect the actual cashflow of the Group. The finance costs were mainly contributed by the imputed interest charged on convertible notes of HK\$14.55 million, the bank interest of HK\$3.31 million and the interest of HK\$4.14 million on other loans.

##### Recovery of impairment loss on loan receivable

In 2011, the Group had issued several legal demand letters for the collection of debts from the respective borrowers. Despite the Group several requests and demands, borrowers defaulted in the repayment of loans as and when they fell due. Impairment loss in respect of loan receivables had been provided in 2011. In June 2012, one of the borrowers repaid approximately HK\$10 million to settle all outstanding amounts and the accrued interests thereon. Accordingly, the relevant impairment loss was recovered and recorded as an income in the interim period.

##### Waiver of loan interests by the lenders

Waiver of loan interests by the lenders comprised HK\$13.32 million of loan interest waived by Mr. Tan Chin Ang ("Mr. Tan") and HK\$0.66 million of loan interest waived by Honghu Capital Co. Ltd. ("Honghu"). On 29 June 2012, Danzhou Qingyuan Water Industry Company Limited\* (儋州清源水務有限公司) ("Danzhou Qingyuan") ("Borrower"), an indirectly wholly-owned subsidiary of the Company and Mr. Tan ("Lender") entered into a settlement agreement to solve the debt issue. As of 29 June 2012, loan plus interest owed to Mr. Tan by Danzhou Qingyuan was in total amount of RMB23.86 million. Pursuant to the settlement agreement, Mr. Tan agreed to accept the amount of RMB13 million from Danzhou Qingyuan. This amount comprised of the loan principal of RMB4 million and interests of RMB9 million. Danzhou Qingyuan was exempted to pay the loan interests of RMB10.86 million (equivalent to HK\$13.32 million).

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### FINANCIAL PERFORMANCE *(Continued)*

#### RESULTS *(Continued)*

##### Share of results from associates

During the first half of 2012, the share of results from the associates decreased by HK\$3.22 million to HK\$2.60 million (2011: HK\$5.82 million), mainly because iMerchants Limited (“iMerchants”) is no longer an associate of the Group. In September 2011, the Board considered that the Group cannot exercise significant influence over iMerchants’ financial and operating policy decisions. In light of this, the Board determined to reclassify the equity interest in iMerchants to available-for-sale investments. After the reclassification, two associated companies remained within the Group, Jinan Hongquan Water Production Co., Ltd (“Jinan Hongquan”) and Yu Jiang Hui Min Small-Sum Loan Company Limited (“Yu Jiang Hui Min”). As at 30 June 2012, the Group held 35% equity interest in Jinan Hongquan and 10% equity interest in Yu Jiang Hui Min and shared the loss of HK\$3.21 million and the profit of HK\$0.61 million respectively.

##### Income tax

In the first half of 2012, the income tax has increased substantially by HK\$4.05 million to HK\$8.26 million (2011: HK\$4.21 million). Certain subsidiaries in PRC enjoyed tax concession benefit which were exempted to pay PRC income tax for two years from the first profit making year, followed by a 50% reduction of PRC income tax for next three years. For the interim period 2012 and 2011, the PRC standard income tax rate is at 25%. The increase in income tax was due to the expiration of full tax exemption and as a result, certain subsidiaries in PRC had started to pay the PRC income tax.

### BUSINESS SEGMENT REVIEW

#### Water supply business

During the period under review, the Group’s water supply business consisted of 6 water supply plants which are located in Jiangxi Province, Anhui Province, Shandong Province and Hainan Province. The total daily water supply capacities were approximately 1,960,000 tonnes contributing revenue of HK\$49.81 million, representing 34.60% of the Group’s total revenue. The price of water supply ranged from HK\$1.55 to HK\$2.34 per tonne.

#### Sewage treatment business

Sewage treatment business consisted of 3 sewage treatment plants which are located in Jiangxi Province, Guangdong Province and Shandong Province. The daily disposal sewage capacities were approximately 130,000 tonnes per day contributing revenue of HK\$17.42 million, representing 12.10% of the Group’s total revenue. The price of sewage treatment ranged from HK\$1.46 to HK\$1.60 per tonne. The new sewage treatment plant located in Gaoming, Foshan City, Guangdong Province, the PRC contributed revenue of HK\$4.36 million and gross profit HK\$3.08 million to the Group for the period under review.

#### Construction services for water supply and sewage treatment infrastructure

Construction services included water meter installation, construction of pipelines and pipelines repairing. This was the Group’s major source of revenue contributing HK\$76.73 million during the period, representing 53.30% of the Group’s total revenue.

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2012, the Group recorded cash and bank balance including cash held at financial institutions of HK\$111.45 million (compared with HK\$91.83 million on 31 December 2011). The increase was mainly due to loan borrowing by subsidiaries and an increase in income generated from water supply service. The Group has had steady cash flow generating from the water supply and sewage treatment business segments.

Total liabilities of the Group as at 30 June 2012 were HK\$670.95 million (compared with HK\$721.55 million on 31 December 2011). They mainly comprised of the convertible bonds (“**CB**”) of HK\$148.14 million (2011: HK\$212.03 million), bank and other borrowings of HK\$205.48 million (2011: HK\$194.08 million), and government grants of HK\$73.57 million (2011: HK\$71.35 million). The CB were denominated in HK dollars, while others were denominated in Renminbi and the interest rates of which were fixed.

The Group’s gearing ratio as at 30 June 2012 was 62.59% (2011: 70.38%). The ratio was calculated by dividing total liabilities of HK\$670.95 million over total assets of the Group of HK\$1,071.98 million.

At as 30 June 2012, the Group had net current liabilities of HK\$51.76 million (2011: net current liabilities of HK\$147.89 million). The improvement of net current liabilities position was because the holder of HK\$80 million zero interest convertible notes due 2012 (“**Convertible Notes I**”) had converted HK\$80,000,000 of Convertible Notes I into 80,000,000 conversion shares on 29 June 2012. This was lessen short term liabilities pressure.

### TRADE AND OTHER RECEIVABLES

As at 30 June 2012, the Group’s trade and other receivables were approximately HK\$107.30 million (31 December 2011: HK\$96.39 million). The increase in trade and other receivables was mainly due to the increase of operating activities in construction services business.

### TRADE AND OTHER PAYABLES

As at 30 June 2012, the Group’s trade and other payables were approximately HK\$213.42 million (31 December 2011: HK\$215.64 million).

### SHARE CAPITAL

As at 30 June 2012, the Company’s share capital amounted to approximately HK\$245.17 million (31 December 2011: HK\$410.33 million). The substantial decrease was due to the par value of every issued share of the Company be reduced from HK\$1.00 to HK\$0.50 each by the reduction of HK\$0.50 on each issued share of par value of HK\$1.00 each (“**Capital Reduction**”). Following the effective of the Capital Reduction on 7 March 2012, the value of total issued share capital of the Company reduced from HK\$410.33 million to HK\$205.17 million. During the interim period, the holder of Convertible Notes I exercised its right to convert HK\$80 million of convertible notes into 80,000,000 conversion shares of HK\$0.50 per shares. Additional HK\$40 million of new issued share capital added to the Share Capital of the Company.



## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### SHARE PREMIUM AND RESERVES

As at 30 June 2012, the Company's share premium and reserves amounted to approximately HK\$54.04 million (31 December 2011: HK\$307.02 million). The significant decrease was mainly due to the accumulated loss of the Company offsetting by the Capital Reduction of HK\$205.17 million and share premium reduction of HK\$191.52 million. The share premium reduction was that the credit of the share premium account used to set off the accumulated losses of the Company which was approved by the shareholders of the Company at annual general meeting on 15 June 2012.

### CAPITAL RAISING AND USE OF PROCEEDS

On 27 July 2012, the Company entered into the Placing Agreement with the Placing Agent, pursuant to which the Company placed out a maximum of 82,000,000 new ordinary share of HK\$0.5 each at a Placing Price of HK\$0.50 per Placing Share, through the Placing Agent on a best effort basis. The Placing of New Shares were completed on 14 August 2012. The Board intended to apply the net proceeds of HK\$39.5 million obtained from the Placing (i) as to approximately 50% for future business development; and (ii) as to approximately 50% for general working capital of the Group.

During the first half of 2012, the Group incurred capital expenditures amounting to HK\$22.41 million (2011: HK\$54.27 million), while HK\$10.24 million had been used for acquisition of concession intangible assets.

### MAJOR EVENTS DURING THE PERIOD UNDER REVIEW

#### Lapse of placing of convertible notes

On 15 August 2011, the Company entered into the Placing Agreement ("**Placing**") with Kingston Securities Limited (the "**Placing Agent**"), pursuant to which the Placing Agent agreed to procure placees to subscribe for HK\$200 million of the zero interest Convertible Notes III 2014 ("**Convertible Notes III**") on a best endeavours basis. Due to the downturn and uncertainty of the global financial market, the Placing Agent indicated that investors are unwilling to commit to any investment in debt instruments, the Placing Agreement relating to the Convertible Notes III lapsed on 12 January 2012. The directors of the Company are of the view that the lapse of the Placing Agreement would not cause any negative impact to the operation and financial position of the Company.

#### Deemed disposal of 40% interest in a subsidiary

On 10 February 2012, Super Sino Investment Limited ("**Super Sino**"), an indirect wholly-owned subsidiary of the Company, entered into the Agreement with Water Affairs Bureau of Dang Shan County, Anhui Province, the PRC ("**Dang Shan County Water Bureau**") in relation to the capital injection by Dang Shan County Water Bureau in the amount of RMB10 million to Anhui Dang Shan Water Industry Company Limited\* (安徽省礪山水業有限公司) ("**Dang Shan**") as its registered capital. After the capital injection, Dang Shan will change from a wholly-owned foreign enterprise to a Sino-foreign equity joint venture in which Super Sino and Dang Shan County Water Bureau will be interested in as to 60% and as to 40% respectively. After the deemed disposal, Dang Shan will become a non-wholly owned subsidiary of the Group with only 60% equity interest. The financial results of Dang Shan will still continue to be consolidated into the financial results of the Group. Up to the interim report date, the transaction has not been completed.

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### MAJOR EVENTS DURING THE PERIOD UNDER REVIEW *(Continued)*

#### Completion of Capital Reduction

On 18 August 2011, the Company proposed to effect the Capital Reduction pursuant to which the par value of each of the issued Consolidated Shares will be reduced from HK\$1.00 to HK\$0.50 each by cancelling paid up capital to the extent of HK\$0.50 per issued Consolidated Share resulting in each issued Consolidated Share of HK\$1.00 each being treated as one fully paid-up New Share of HK\$0.50 each in the share capital of the Company. Upon receipt of the order granted by the Grand Court of the Cayman Islands on 6 March 2012 and other relevant documents duly filed and registered with the Registrar of Companies in the Cayman Islands, the capital reduction and the share subdivision became effective on 7 March 2012 resulting in the total authorized share capital of HK\$2,200,000,000 divided into 4,000,000,000 ordinary shares par value HK\$0.50 each and 2,000,000,000 convertible preference shares of par value of HK\$0.1 each. After the effective of Capital Reduction, the conversion price of ("**Convertible Notes I**") was remain unchanged at HK\$1.00 per conversion share whereas the conversion price of HK\$200 million zero interest Convertible Notes due 2014 ("**Convertible Notes II**") was adjusted from HK\$1.00 per conversion share to HK\$0.50 per conversion share, pursuant to the Subscription Agreement I in respect of Convertible Notes I and the Subscription Agreement II in respect of Convertible Notes II respectively.

#### Conversion of Convertible Notes I into Shares

On 29 June 2012, Honghu had converted HK\$80,000,000 of Convertible Notes I into 80,000,000 Shares at the conversion price of HK\$1.00 per conversion share, representing approximately 16.32% of its enlarged issued share capital of Company. Following such conversion, Honghu becomes a substantial shareholder of the Company. As at 30 June 2012, the outstanding principal amount of the Convertible Notes II is HK\$200,000,000 which is held by Honghu.

#### Settlement Agreement to solve the debt issue

On 29 June 2012, Danzhou Qingyuan ("Borrower") and Mr. Tan ("Lender") entered into a settlement agreement to solve the debt issue. As of 29 June 2012, loan plus interest owed to Mr. Tan by Danzhou Qingyuan was in total amount of RMB23.86 million. Pursuant to the settlement agreement, Mr. Tan agreed to accept the amount of RMB13 million from Danzhou Qingyuan. This amount comprised of the loan principal of RMB4 million and interests of RMB9 million. Danzhou Qingyuan was exempted to pay the loan interests of RMB10.86 million (equivalent to HK\$13.32 million). This waived loan interest had brought a positive financial impact to the Group and reflected in the interim period.



### MAJOR EVENT SUBSEQUENT TO THE PERIOD UNDER REVIEW

#### Termination of acquisition of the Sale Interests

Pursuant to the Sales and Purchase Agreement dated 1 December 2010 and the supplemental agreement dated 7 December 2011, the acquisition of the Sale Interests relating to 70% of the registered capital of Gaoming Huaxin, 100% of the registered capital of Sihui City South China Waterworks Development Co., Ltd.\* (四會市華南水務發展有限公司) (“**Sihui South China**”), and 100% interest of Boluo Da Xin Sewage Treatment Company Ltd.\* (博羅達信污水處理有限公司) (“**Boluo Da Xin**”), is subject to the fulfillment of the conditions precedent on or before 30 June 2012. The acquisition of 70% of the entire equity interests in Gaoming Huaxin had been completed on 30 September 2011. Based on the recent due diligence findings by the Company's PRC legal adviser, it revealed that there are contingent encumbrances on the equity interests in Sihui South China and the operation right of Boluo Da Xin. On the advice of the PRC legal adviser, the Company determined not to proceed the acquisition of Sihui South China and Boluo Da Xin (the “**Remaining Acquisition**”) and to demand repayment of the outstanding amount owing from Top Vision Management Limited (“**Top Vision**”). On 21 August, 2012, Mark Profit Group Holdings Limited, an indirect wholly-owned subsidiary of the Company (“**Purchaser**”) entered into the Deed of Termination relating to the termination of the Remaining Acquisition with Top Vision (Vendor A), Da Xin Waterworks Management (Huizhou) Co., Ltd. (Vendor B) and Mr. Yang Wei Hua. The directors of the Company are of view that the termination will not cause any material adverse impact on the existing business of the Group.

#### Repayment of loan receivables

On 21 August 2012, the Company and its subsidiary of Swift Surplus Holdings Limited (collectively as the “**Lenders**”) entered into repayment agreements (the “**Repayment Agreements**”) with the Sihui Sewage Treatment Co. Ltd.\* (四會市城市污水處理有限公司) and Vendor A (collectively as the “**Borrowers**”) together with their respective guarantors, pursuant to which, the Borrowers shall repay to the Lenders the loan receivables of approximately HK\$58.43 million together with interest accrued thereon (the “**Loan Receivables**”). HK\$5 million of the Loan Receivables will be repaid on or before 30 September 2012 and the remaining Loan Receivables shall be repaid on or before 31 December 2012. For the financial year ended 31 December 2010 and 31 December 2011, impairment losses of approximately HK\$21.3 million regarding the aforesaid Loan Receivables have been provided (the “**Impairment**”). Upon the repayment of Loan Receivables and the underlying interests, the relevant Impairment would be recovered. This recovery would be brought a positive financial impact to the financial position of the Group.

#### Repayment of payment in advance

Pursuant to a deed dated 31 March 2011, the Vendor A and owner of 30% of Gaoming Huaxin undertaken and warranted to Purchaser the compensation of payment in advance of RMB8 million (the “**Payment in Advance**”). The Payment in Advance had been stated as a bad debt in the Gaoming Huaxin management accounts. On 21 August 2012, Vendor A and Purchaser entered into a supplemental deed and agreed the Payment in Advance to be repaid to the Purchaser on or before 30 December 2013. Upon the repayment of aforesaid Payment in Advance, the bad debts would be recovered. This recovery would be brought a positive financial impact to the Group.

#### Issued a statutory demand against borrower

On 20 August 2012, the Company instructed its legal counsel to issue a statutory demand letter (“**Demand Letter**”) to the borrower, Birmingham International Holdings Limited (“**BIHL**”) whose shares with the stock code 2309 are listed on the main board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). Up to the date of Demand Letter, BIHL owes the Company the aggregate amount of approximately HK\$46.50 million (“**Loans**”). If BIHL fails to make the repayment of the Loans to the Company within 21 days from the date of receipt of this Demand Letter, the Company would consider a petition for the winding up of BIHL. Up to the interim report date, there is neither legal proceedings initiated against BIHL nor settlement proposal for repayment of loans reached between the Company and BIHL. The directors of the Company believe that there is no material adverse financial impact to the Group in the current period as approximately HK\$40.75 million of the BIHL Loans was impaired in the financial year ended 31 December 2011.

### LITIGATIONS AND ARBITRATION

#### (i) Technostore Limited, a subsidiary of the Company

On 30 May 2007, a Petition was filed under sections 168A and 177 of the Company Ordinance (Cap. 32) to wind-up Technostore Limited ("**Technostore**"), a company in which the Company held 50.01% of the issued shares. The Petition was commenced by Mao Chi Fai ("**Petitioner**"), the minority shareholder of Technostore holding 49.99% of the issued shares.

Following court hearings regarding the winding-up proceeding in the preceding year, on 29 August 2008, the court made an order to appoint Kenny Tam & Company ("**Liquidator**"), Certified Public Accountant as a liquidator of Technostore and Happy Hour Limited and Mr. Mao Chi Fai to become members in the committee of inspection. In October 2009, all stocks of Technostore with costs valued at approximately HK\$2.2 million transferred by the Official Receiver's Office to the Liquidator were disposed at the consideration of around HK\$0.62 million by public tender. Preferential and ordinary dividends were distributed in November 2010. Further, a sum of less than HK\$1,000 was realized from the bank accounts of Technostore. On 25 August 2011, the Liquidator indicated that no additional assets of Technostore have been realized and it anticipates that there will be no further assets for realization. The Liquidator has further indicated that it will apply to the Court for his release as the liquidator of Technostore after the determination of a validation order. On 29 February 2012, the Liquidator further advised that there was no additional assets realization since 25 August 2011. The Liquidators also advised that they are preparing an application for validation order and will file their release application pending sanction of the validation order by the Court. Up to the report date, the Liquidators have yet to confirm the details of the validation order application. The directors of the Company believe that no material future outflows resources from the Group is expected and sufficient provision on assets related to TechnoStore have been provided. It is unlikely that there will be a material adverse financial impact on the Group.

#### (ii) Super Sino Investment Limited, an indirect wholly-owned subsidiary of the Company

On 6 November 2007, the People's Government of Danzhou and Super Sino entered into an assets and liabilities transfer agreement, pursuant to which the assets and liabilities of Danzhou City Water Company\* (儋州市自來水公司) ("**Danzhou City Water**") were transferred to Super Sino. On 26 June 2008, Agricultural Bank of China Danzhou Branch ("**Plaintiff**") instituted proceedings with the First Intermediate People's Court of Hainan Province against Danzhou City Water, Super Sino and the People's Government of Danzhou (a third party) regarding the abovementioned transfer of the relevant liabilities, claiming for the principal of RMB26 million and the interest thereon of RMB49.19 million repayable by Danzhou City Water and Super Sino (as defendants). On 13 November 2009, the First Intermediate People's Court of Hainan Province issued a civil verdict, pursuant to which Super Sino was ordered to fully repay the loan principal of RMB26 million together with the interest thereon. On 17 December 2009, the Plaintiff made an appeal to the Higher People's Court of Hainan Province court seeking the fulfilment of the guarantee responsibility of Danzhou Urban Development Corporation. On 15 December 2010, Higher People's Court of Hainan Province issued verdict, pursuant to which all the shares of Danzhou Qingyuan (formerly known as Danzhou City Water) owned by Super Sino (the "**Shares**") have been frozen from 15 December 2010 to 14 December 2012. The Company cannot transfer or dispose of the Shares during the period. According to the legal advice, the directors of the Company are of the opinion that the verdict will not impair the control of the Group over Danzhou Qingyuan due to the following reason:

### LITIGATIONS AND ARBITRATION *(Continued)*

#### (ii) Super Sino Investment Limited, an indirect wholly-owned subsidiary of the Company *(Continued)*

- (1) Super Sino is still the legal owner of Danzhou Qingyuan during the period ended 30 June 2012 and up to 14 December 2012.
- (2) As Danzhou Qingyuan is engaged in the business of provision of water in the PRC which requires special license from the respective the PRC government authorities. The procedures for the change of shareholding is complicated and require the approval from several the PRC government authorities.

As at the date of the interim report, the directors of the Company are discussing the settlement arrangement with the Plaintiff and there is no demand for settlement from the Plaintiff at the moment. The principal of the said loan and the interest thereon have been included in the interim financial statements of the Group. The directors of the Company are of the view that the aforesaid litigation is unlikely to have any significant material financial impact on the Group.

#### (iii) Guangzhou Hyde Environmental Protection Technology Co., Ltd., an indirect wholly-owned subsidiary of the Company

Guangzhou Hyde Environmental Protection Technology Co. Ltd\* (廣州市海德環保科技有限公司) (“**Guangzhou Hyde**”) (an indirect wholly-owned subsidiary of the Company) and Yunnan Chaoyue Gas Company Limited (雲南超越燃氣有限公司) (“**Yunnan Chaoyue Gas**”) entered into the cooperation contract dated 13 October 2010, pursuant to which Guangzhou Hyde shall paid a refundable deposit of HK\$10 million (“**Deposit**”) to Yunnan Chaoyue Gas for the purpose of obtaining the operation and management right of the Yunnan Dian Lake project (“**Project**”). Pursuant to the cooperation contract, Yunnan Chaoyue Gas shall refund the Deposit to Guangzhou Hyde within nine months once it was unsuccessfully to obtain the Project. Yunnan Chaoyue Gas has failed to repay the aforesaid Deposit to Guangzhou Hyde when it fell due despite Guangzhou Hyde’s repeated requests and demands. The Deposit was classified as loan receivable and fully impaired in 2011.

The dispute over cooperative contract between Guangzhou Hyde and Yunnan Chaoyue Gas was applied to Guangzhou Arbitration Commission (“**Commission**”) for arbitration on 24 February 2012. The Commission accepted the case and started a trail on 5 June 2012. After the trail, arbitration tribunal ruled an award on 12 June 2012, adjudging that:

1. Yunnan Chaoyue Gas should pay Guangzhou Hyde the principal of RMB8,557,000 and overdue interests, which is calculated based on the principal of RMB8,557,000, at the lending interest rate announced by People’s Bank of China, for the period from 14 July 2011 to the date on which all such amounts are settled, subject to a limit of principal of RMB8,557,000.
2. The arbitration fees of RMB75,347 for this case should be borne by Yunnan Chaoyue Gas.

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### LITIGATIONS AND ARBITRATION *(Continued)*

#### (iii) **Guangzhou Hyde Environmental Protection Technology Co., Ltd., an indirect wholly-owned subsidiary of the Company** *(Continued)*

The above award confirmed the amount to be paid by Yunnan Chaoyue Gas to Guangzhou Hyde should be settled in one-off manner within 10 days from the date on which this award is served. Late payment will result in proceedings set out in article 229 of Civil Procedure Laws of the People's Republic of China.

As Yunnan Chaoyue Gas has not performed repayment obligation under the award on time, Guangzhou Hyde applied to Kunming Intermediate People's Court for civil enforcement on 21 July 2012, and Kunming Intermediate People's Court has accepted such application. At present, this case is in the process of execution by Kunming Intermediate People's Court. The aforesaid litigation is unlikely to have any significant material financial impact on the Group.

Save and except for these litigations and arbitration, the Company is not aware of any other significant proceedings instituted against the Company.

### FOREIGN EXCHANGE RISK

The Group's exposure to foreign exchange risk is minimal as most of the Group's subsidiaries operate in the PRC and most of the transactions, assets and liabilities are denominated in Renminbi. Accordingly, the Group does not have derivative financial instruments to hedge its foreign currency risks.

### CONTINGENT LIABILITIES

As at 30 June 2012, the group did not have any significant contingent liabilities (2011: Nil).

### CAPITAL COMMITMENTS

As at 30 June 2012, the Group has the capital commitments contracted but not provided for acquisition of property, plant and equipment approximately HK\$1.03 million (2011: HK\$19.90 million).

### EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2012, the Group has employed approximately 1,001 full-time employees (2011: 972 full-time employees). Most of them stationed in the PRC while the remaining in Hong Kong. The remuneration package of the employees is determined by various factors including the employees' experience and performance, the market condition, industry practice and applicable employment law.

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### PROSPECT

At the beginning of the year, the new Board and management have drawn up a three-year development plan for the Group:

**2012: Straightening out group relationship and issues, building a solid foundation and a strong management, to keep the profit**

**2013: Expanding our business scale and coverage, and enhancing our efficiency, to keep the growth**

**2014: Following the innovative development concept, achieving economies of scale and strengthening the brand, to keep the sustainable development**

Year 2012 is a year of adjustment for the Group, which will focus on straightening issues left over from history and enhancing management. Through our endeavors over the past six months, many issues left over from history were straightened. Reporting profit in this interim period is significant to the Group, because this means the Group has weathered the tough situation and is about to embrace a new era for development.

Although price increase in 2012, especially the increment in electricity cost and labor cost, posted substantial pressures over the operation of our subordinate water supply companies and sewage water treatment plants, thanks to our efforts like improving efficiency through management and increasing income from additional projects, economic indicators in each subsidiaries revealed sound performance and the Company's revenue surged up as compared with the same period of previous year.

In the meantime, due to the increase in Customer Price Index, many water supply plants applied for adjustment in water supply price. If the increase in water supply price is approved, the Company's results for the second half will be further upgraded.

Water industry currently remains the Company's principal business. It's our ambition to strengthening and expanding our city water supply and sewage treatment business. To accomplish it, we plan, firstly, to enhance our management and explore the potential in improving water supply capacity and sewage treatment capacity, secondly, to control costs and increase profits, and thirdly, to continue to acquire new water supply companies and sewage treatment plants, in order to improve the results of the Group's principal business.

At present, all our staff remain loyal to the Company, preserve the enthusiasm for making profit for the Company throughout the whole year and are devoted to securing rapid pace of development for the Group. Let's go, for the Group's vision: to assure the government, to satisfy the residents, to gain shareholders' recognition, and to build employees sense of belonging.



## SUPPLEMENTARY INFORMATION

### INTERIM DIVIDENDS

The directors of the Company do not recommend the payment of a interim dividend for the six months ended 30 June 2012 (2011: Nil).

### DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 30 June 2012, the interests and short positions of each Director and Chief Executive of the Company, or their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO") which (a) had been notified of the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which Directors have taken or deemed to have under such provisions of the SFO) or which (b) were required pursuant to section 352 of the SFO, to be entered in the register referred to therein; or which (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in Appendix 10 to the Listing Rules to be notified to Company and the Stock Exchange were as follows:

#### Interest in the Shares

Name of director	Nature of interest	Number of issued ordinary shares held	Total interest	Percentage of the issued share capital of the Company
Chu Yin Yin, Georgiana	Beneficial owner	543,200	543,200 (L)	0.11%

For the purpose of this section, the shareholding percentage in the Company is calculated on the basis of 490,331,766 Shares in issue as at 30 June 2012.

The letter "L" denotes a long position in shares of the Company

Save as disclosed above, as at 30 June 2012, none of the Directors or Chief Executive of the Company had any interest or short position in any shares, underlying shares or debenture of the Company or any of its associated corporations (within meaning of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which Directors have taken or deemed to have under such provisions of SFO) or (b) were required pursuant to section 352 of the SFO, to be entered in the register referred to therein; or which (c) were required, pursuant to the Model Code to be notified to Company and the Stock Exchange.

## SUPPLEMENTARY INFORMATION *(Continued)*

### SUBSTANTIAL SHAREHOLDERS

As at 30 June 2012, the following persons and entities, other than a Director or Chief Executive of the Company disclosed under the section of "Directors' and Chief executive's interests in Securities" above, had interest or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of SFO:

Name of shareholder	Capacity	Number of shares held	Number of underlying shares held under equity derivatives	Approximate percentage of the issued share capital of the Company
Deng Jun Jie	Interest of controlled corporation	80,000,000 (L) (Note 1)	–	16.32%
		–	400,000,000 (S) (Note 2)	81.57%
Honghu Capital Co. Ltd.	Beneficial owner	80,000,000 (L) (Note 1)	–	16.32%
		–	400,000,000 (S) (Note 2)	81.57%
Chu Yuet Wah	Interest of controlled corporation	–	400,000,000 (L) (Note 3)	81.57%
Best Forth Limited	Interest of controlled corporation	–	400,000,000 (L) (Note 3)	81.57%
Ample Cheer Limited	Interest of controlled corporation	–	400,000,000 (L) (Note 3)	81.57%
Kingston Finance Limited	Persons having security interests in shares	–	400,000,000 (L) (Note 3)	81.57%

*Note 1:* These Shares are held by Honghu which Mr. Deng Jun Jie ("**Mr. Deng**") is the beneficial owner. Mr. Deng is deemed to be interested in Shares by virtue of the SFO.

*Note 2:* These 400,000,000 underlying Shares held under equity derivatives are those Shares which would be issued upon exercise of the convertible rights attached to the convertible bonds issued by the Company as disclosed in the announcement of the Company dated 18 August 2011. These underlying Shares are held by Honghu which Mr. Deng is the beneficial owner. Mr. Deng is deemed to be interested in underlying Shares by virtue of the SFO. On 10 October 2011, Honghu pledged 400,000,000 underlying Shares to Kingston Finance Limited ("**Kingston**") for obtaining the fundings facility.

*Note 3:* These 400,000,000 underlying Shares held under equity derivatives are those Shares which would be issued upon exercise of the convertible rights attached to the convertible bonds issued by the Company as disclosed in the announcement of the Company dated 18 August 2011. On 10 October 2011, Kingston granted fundings facility to Honghu. This facility was secured by 400,000,000 underlying Shares which are beneficially owned by Honghu. Kingston is wholly-owned by Ample Cheer Limited ("**Ample**"). Best Forth Limited ("**Best Forth**") is interested in 80% of the equity interest in Ample. Ms. Chu Yuet Wah ("**Ms. Chu**") holds the entire equity interest in the Best Forth. As the issued share capital of Kingston is held directly or indirectly by Ample, Best Forth and Ms. Chu, they are deemed to be interested in underlying Shares by virtue of the SFO.

*Note 4:* The shareholding percentage in China Water is calculated on the basis of 490,331,766 China Water Shares in issue as at 30 June 2012.

*Note 5:* The letter "L" denotes a long position in Shares, the letter "S" denotes a short position in Shares.



## SUPPLEMENTARY INFORMATION *(Continued)*

### **DIRECTORS' RIGHTS TO ACQUIRES OR DEBENTURES**

Save as disclosed under the heading "Share option scheme" below, at no time during the period were the rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or Chief Executive of the Company or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company and its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

### **SHARE OPTION SCHEME**

At the Annual General Meeting of the Company held on 3 June 2011, the shareholders of the Company approved the adoption of the Company's New Share Option Scheme ("**New Scheme**") and the termination of the Company's then Existing Share Option Scheme. Options granted under the Existing Share Option Scheme but not exercised or lapsed in accordance with the terms of the New Scheme were cancelled by the Company with the approval of the Option Holders. The New Scheme was adopted for the primary purpose of providing incentives or rewards to selected eligible participants for their contributions to the Group, and will expire on 2 June 2021. During the period ended 30 June 2012, there are no option has been granted since the New Scheme adoption.

### **PRE-EMPTIVE RIGHTS**

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to its existing shareholders.

### **PURCHASES, REDEMPTIONS OR SALES OF COMPANY'S LISTED SECURITIES**

There were no purchases, redemptions or sales of the Company's listed securities by the Company or any of its subsidiaries during the period under review.

### **SUFFICIENT OF PUBLIC FLOAT**

As far as the information publicly available to the company is concerned and to the best knowledge of the Directors of the Company, at least 25% of the Company's issued share capital were held by members of the public as at the date of the interim results report.

### **COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES AND CORPORATE GOVERNANCE CODE**

The Group recognizes the importance of transparency and accountability to shareholders. The Board will continually review and enhance its corporate governance practices to ensure that they meet shareholders' expectation and comply with relevant standards.

The Stock Exchange has made various amendments to the Code on Corporate Governance Practices (the "**Old Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and renamed it the Corporate Governance Code (the "**CG Code**"). The CG Code took effect on 1 April 2012.

### COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES AND CORPORATE GOVERNANCE CODE *(Continued)*

During the six months ended 30 June 2012, the Company has been fully complied with all code provisions of the Old Code during the period from 1 January 2012 to 31 March 2012. It has also fully complied with the CG code during the period from 1 April 2012 to 30 June 2012, other than the Code provision A4.1 stipulates that non-executive Directors including independent non-executive Directors should be appointed for a specific term, subject to re-election while all directors should be subject to the retirement by rotation at least once every three years. However, none of the existing independent non-executive Directors of the Company are appointed for a specific term since all independent non-executive Directors of the Company are subject to retirement by rotation and re-election at annual general meetings for the Company in line with the Company's Articles of Association. The Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code.

To reinforce and stringent control on the Listing Rules compliance and internal control system, the Company has subsequent to the interim period to undertaken steps including: (i) appointed an independent internal control auditor to conduct a thorough review of and make recommendations to improve the Company's internal controls for compliance with the disclosure requirements under the Listing Rules; (ii) proposed to engage a compliance advisor for consultation matters for a period of two years so as to improve the internal controls for procuring the compliance of the Listing Rules; (iii) each of the Directors had attended training from an accredited course provider to enhance his/her knowledge on the Listing Rules and the roles and responsibilities of directors of listed companies; (iv) recruiting additional staff to its internal audit department; (v) revised its internal control system relating to the finance management to enhance management control and introduced more stringent procedures to improve the existing internal control system; and (vi) provided internal training to the accounting staff of Group's PRC operating subsidiaries to reinforce their understanding of the Group's internal control requirements.

### CHANGES IN INFORMATION OF DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of Directors of the Company subsequent to the date of the 2011 Annual Report are set out below:

<b>Name of Directors</b>	<b>Details of changes</b>
Mr. Wang De Yin	Appointed as a Chairman Committee of the Nomination Committee and Chief Executive Officer of the Company with effect from 19 January 2012 and 19 July 2012 respectively;
Ms. Deng Xiao Ting	Appointed as an executive Director of the Company with effect from 19 July 2012;
Mr. Yang Bin	Resigned as an executive Director, the Chief Executive Officer, a member of the Investment Committee and an Authorized Representative of the Company with effective 23 April 2012;
Mr. Liu Feng	Appointed as an Authorized Representative of the Company with effective 23 April 2012;

## SUPPLEMENTARY INFORMATION *(Continued)*

### CHANGES IN INFORMATION OF DIRECTORS *(Continued)*

Name of Directors	Details of changes
Mr. Lin Yue Hui	Appointed as a member of the Investment Committee of the Company with effective 23 April 2012;
Mr. Tang Hui Ping	Resigned as an executive Director of the Company with effect from 19 July 2012 but remains as a member of Investment Committee, Deputy General Manager and Chief Internal Auditor of the Company;
Mr. Guo Chao Tian	Appointed as an independent non-executive Director and a member of Audit Committee with effect from 15 June 2012;
Mr. Gu Wen Xuan	Resigned as an independent non-executive Director and a member of Audit Committee with effect from 15 June 2012;
Mr. Chang Kin Man	Appointed as a member of Nomination Committee but resigned as a Member of Investment Committee with effect from 19 January 2012 and 16 March 2012 respectively;
Mr. Wu Tak Lung	Appointed as a member of Nomination Committee with effect from 19 January 2012.

Save for the information disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

### COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as the code of the conduct for securities transactions by directors (the "**Model Code**"). The prohibitions on securities dealing and disclosure requirements in the Model Code apply to specified individuals including the Group's senior management and also persons who are privy to price sensitive information of the Group. Having made specific enquiry of all directors, the Board confirmed that directors of the Company had complied with the Model Code regarding directors' securities transactions throughout the accounting period and up to the date of this interim report.

### AUDIT COMMITTEE

The Audit Committee comprises 3 independent non-executive Directors of the Company, has reviewed with the management of the Company the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including the review of the unaudited interim financial statements for the six months ended 30 June 2012. The term of reference of the Audit Committee is available on the Company's website and on the Stock Exchange's website.

## **SUPPLEMENTARY INFORMATION** *(Continued)*

### **REMUNERATION COMMITTEE**

The Remuneration Committee comprises 2 independent non-executive Directors of the Company and 1 executive Director of the Company, is responsible for reviewing and evaluating the remuneration policies of executive Directors and senior management and making recommendations to the Board from time to time. The term of reference of the Remuneration Committee is available on the Company's website and on the Stock Exchange's website.

### **NOMINATION COMMITTEE**

The Nomination Committee was established on 19 January 2012 and comprising a majority of independent non-executive Directors of the Company. The Nomination Committee is mainly responsible for reviewing the Board composition, advising the Board on the appointment and succession planning of Directors and assessing the independence of independent non-executive Directors. The term of reference of the Nomination Committee is available on the Company's website and on the Stock Exchange's website.

### **INVESTMENT COMMITTEE**

The Investment Committee consists of 3 executive Directors, 1 Deputy General Manager and 1 General Manager of the Investment Department of the Company. The role of Investment Committee is to oversee the Company's strategic and investment policy on a regular basis and to advise the Board on the investment of the Company including asset allocation and new investment proposal. The term of reference of the Investment Committee is available on the Company's website.

### **PUBLICATION OF THE INTERIM RESULTS AND REPORT**

The interim report for 2012 is published on the websites of the Company ([www.chinawaterind.com](http://www.chinawaterind.com)) and The Stock Exchange of Hong Kong Limited (<http://www.hkex.com.hk>).

### **BOARD OF DIRECTORS**

The Board of the Company as at the date of report comprise Mr. Wang De Yin, Mr. Liu Feng, Mr. Liu Yue Hui, Ms. Deng Xiao Ting and Ms. Chu Yin Yin, Georgiana, all being executive Directors and Mr. Chang Kin Man, Mr. Wu Tak Lung and Mr. Guo Chao Tian, all being independent non-executive Directors.

### **APPRECIATION**

Finally, I would like to take this opportunity to express my gratitude to my fellow Directors, management and employees for their contributions and dedication to the development of the Group and deep thanks to our shareholders, customers, suppliers and business partners for their continued supports.

By order of the Board  
**China Water Industry Group Limited**  
**Wang De Yin**  
*Chairman and Chief Executive Officer*

Hong Kong, 27 August 2012

\* *For identification purpose only*