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 2013

* for identification purpose only

CONTENTS

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

Independent Non-Executive Directors

Mr. Guo Chao Tian
Mr. Li Jian Jun
Mr. Wong Siu Keung, Joe

AUDIT COMMITTEE

Mr. Wong Siu Keung, Joe *(chairman)*
Mr. Guo Chao Tian
Mr. Li Jian Jun

REMUNERATION COMMITTEE

Mr. Wong Siu Keung, Joe *(chairman)*
Mr. Li Jian Jun
Mr. Liu Feng

NOMINATION COMMITTEE

Mr. Wang De Yin *(Chairman)*
Mr. Wong Siu Keung, Joe
Mr. Li Jian Jun

INVESTMENT COMMITTEE

Mr. Wang De Yin *(Chairman)*
Mr. Liu Feng
Mr. Lin Yue Hui
Mr. Tang Hui Ping
Mr. Liu Hui Quan

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
William W.L. Fan & Company

AS TO CAYMAN ISLANDS LAWS

Conyers Dill & Pearman

COMPLIANCE ADVISOR

Halcyon 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

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
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
168-200 Connaught Road Central
Sheung Wan, Hong Kong

CONTACTS

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WEBSITE

www.chinawaterind.com

STOCK CODE

1129

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2013

	Notes	Six months ended 30 June **2013** ***HK$'000*** **(Unaudited)**	 2012 *HK$'000* (Unaudited)
Revenue	*4*	**169,362**	143,963
Cost of sales		**(97,743)**	(85,060)
Gross profit		**71,619**	58,903
Other operating income		**4,044**	5,234
Selling and distribution expenses		**(9,415)**	(6,439)
Administrative expenses		**(42,190)**	(38,341)
Finance costs	*6*	**(9,454)**	(22,292)
Reversal of impairment loss recognised on trade and other receivables		**1,119**	9,275
Gain on disposal of available-for-sale investments		**803**	–
Share of results of associates		**(6,674)**	(2,598)
Waiver of loan interest		**59,748**	13,982
Profit before tax		**69,600**	17,724
Income tax expense	*7*	**(21,496)**	(8,262)
Profit for the period	*8*	**48,104**	9,462
Other comprehensive income for the period			
Exchange difference arising on translation		**8,631**	8,520
Change in fair value of available-for-sale investments		**(664)**	–
Share of other comprehensive income of associates		**1,412**	946
Other comprehensive income for the period		**9,379**	9,466
Total comprehensive income for the period		**57,483**	18,928

For the six months ended 30 June 2013

	Notes	**Six months ended 30 June** **2013** **HK$'000** **(Unaudited)**	2012 *HK$'000* (Unaudited)
Profit for the period attributable to:			
Owners of the Company		**36,342**	1,210
Non-controlling interests		**11,762**	8,252
		48,104	9,462
Total comprehensive income attributable to:			
Owners of the Company		**42,010**	9,375
Non-controlling interests		**15,473**	9,553
		57,483	18,928
Earnings per share (HK cents)	9		
Basic and diluted		**3.27**	0.29

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2013

	Notes	At 30 June 2013 HK$'000 (Unaudited)	At 31 December 2012 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment	11	**130,069**	111,733
Prepaid lease payments		**41,364**	41,629
Concession intangible assets		**533,150**	530,591
Investment property		**17,671**	17,390
Goodwill		**10,351**	10,292
Available-for-sale investments		**49,482**	68,439
Interest in associates		**33,265**	32,831
Deposit paid for acquisition of plant and equipment		**6,821**	5,663
Deposit paid for acquisition of additional interest of a subsidiary		**–**	3,589
		822,173	822,157
Current assets			
Inventories		**69,064**	57,946
Trade and other receivables	12	**214,578**	89,113
Prepaid lease payments		**1,288**	1,252
Amounts due from customers for contract works		**21,523**	29,713
Cash held at financial institutions		**35,686**	38,045
Bank balances and cash		**138,685**	201,204
		480,824	417,273
Current liabilities			
Trade and other payables	13	**217,256**	206,991
Amounts due to customers for contract works		**16,239**	18,158
Bank borrowings		**24,076**	45,953
Other loans		**54,286**	54,473
Amounts due to non-controlling shareholders of subsidiaries		**4,015**	4,108
Loan from an associate		**2,978**	2,931
Tax payables		**27,766**	24,084
		346,616	356,698
Net current assets		**134,208**	60,575
Total assets less current liabilities		**956,381**	882,732

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

At 30 June 2013

	Notes	At 30 June 2013 HK$'000 (Unaudited)	At 31 December 2012 HK$'000 (Audited)
Capital and reserves			
Share capital	14	**555,166**	555,166
Share premium and reserves		**(39,392)**	(80,173)
Equity attributable to owners of the Company		**515,774**	474,993
Non-controlling interests		**242,662**	229,559
Total equity		**758,436**	704,552
Non-current liabilities			
Bank borrowings		**30,706**	34,532
Other loans		**54,289**	34,572
Government grants		**90,651**	90,319
Deferred tax liabilities		**22,299**	18,757
		197,945	178,180
		956,381	882,732

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2013

	Attributable to owners of the Company								
	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*	**Total** *HK$'000*
At 1 January 2012 (audited)	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
Total comprehensive income for the period	–	–	–	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	–	–	–
At 30 June 2012 (unaudited)	245,166	465,525	65,771	50,863	10,517	(646,718)	191,124	209,908	401,032

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

For the six months ended 30 June 2013

	Attributable to owners of the Company									
	Share capital	Share premium	Revaluation reserve	Translation reserve	Investment revaluation reserve	Reserve funds	Accumulated losses	Sub-total	Non-controlling interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* (Note 1)	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2013 (audited)	555,166	484,002	3,553	46,557	1,110	14,445	(629,840)	474,993	229,559	704,552
Profit for the period	–	–	–	–	–	–	36,342	36,342	11,762	48,104
Other comprehensive income for the period	–	–	–	6,332	(664)	–	–	5,668	3,711	9,379
Total comprehensive income for the period	–	–	–	6,332	(664)	–	36,342	42,010	15,473	57,483
Acquisition of additional interest of a subsidiary	–	–	–	–	–	(1,229)	–	(1,229)	(2,370)	(3,599)
Transfer	–	–	–	–	–	1,823	(1,823)	–	–	–
At 30 June 2013 (unaudited)	555,166	484,002	3,553	52,889	446	15,039	(595,321)	515,774	242,662	758,436

Note:

1. 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 2013

	Six months ended 30 June	
	2013	2012
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	**(31,298)**	24,586
NET CASH USED IN INVESTING ACTIVITIES	**(9,398)**	(10,195)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	**(25,375)**	4,436
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(66,071)**	18,827
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**239,249**	91,834
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**1,193**	785
CASH AND CASH EQUIVALENTS AT 30 JUNE, represented by bank balances and cash and cash held at financial institutions	**174,371**	111,446

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2013

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 People's Republic of China (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 2012, which have been prepared in accordance with Hong Kong Financial Reporting Standards.

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated interim financial information has been prepared on the historical cost basis except for certain investment 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 2013 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2012 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.

HKFRSs (Amendments)	Annual Improvements to HKFRSs 2009 – 2011 Cycle
HKFRS 7 (Amendments)	Disclosures – Offsetting Financial Assets and Financial Liabilities
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments)	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interest in Other Entities: Transition Guidance
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income
HKAS 19 (Revised in 2011)	Employee Benefits
HKAS 27 (Revised in 2011)	Separates Financial Statements
HKAS 28 (Revised in 2011)	Investments in Associates and Joint Ventures
HK(IFRIC) – INT 20	Stripping Costs in the Production Phase of a Surface Mine

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.

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.

HKFRS 9	Financial Instruments[2]
Amendments to HKFRS 7 and HKFRS 9	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[2]
HKFRS 10, HKFRS 12 and HKAS 27 (2011) (Amendments)	Investment Entities[1]
HKAS 32 (Amendments)	Presentation – Offsetting Financial Assets and Financial Liabilities[1]
HKAS 36 (Amendments)	Recoverable Amount Disclosures for Non-Financial Assets[1]
HK (IFRIC) – INT 21	Levies[1]

1 Effective for annual periods beginning on or after 1 January 2014

2 Effective for annual periods beginning on or after 1 January 2015

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	
	2013	2012
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Water supply services	**59,810**	49,809
Sewage treatment services	**22,854**	17,417
Water supply related installation and construction income	**77,950**	68,087
Water supply and sewage treatment infrastructure construction income	**8,748**	8,650
	169,362	143,963

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	
	2013	2012
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interest on:		
– Imputed interest charged on convertible bonds	**–**	14,548
– Bank borrowings wholly repayable within five years	**8,081**	2,551
– Bank borrowings wholly repayable more than five years	**–**	763
– Other loans wholly repayable within five years	**1,114**	2,927
– Other loans wholly repayable more than five years	**186**	1,210
– Amounts due to non-controlling shareholders of subsidiaries	**–**	97
– Loan from an associate	**73**	196
	9,454	22,292

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2013	2012
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
PRC Enterprise Income Tax ("EIT")		
– current period	**17,955**	7,367
Deferred tax	**3,541**	895
	21,496	8,262

Hong Kong Profits Tax has not been provided for in the condensed consolidated interim financial information for the six months ended 30 June 2013 and 2012 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 of operation, 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 FOR THE PERIOD

	Six months ended 30 June	
	2013	2012
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit for the period has been arrived at after charging (crediting):		
Staff costs including directors' emoluments		
– salaries, wages and other benefits	**27,430**	24,351
– retirement benefits scheme contributions	**3,012**	3,683
Total staff costs	**30,442**	28,034
Amortisation of prepaid lease payments	**792**	787
Amortisation of concession intangible assets (included in cost of sales)	**11,961**	10,188
Depreciation of property, plant and equipment	**3,923**	3,881
Loss on disposal of property, plant and equipment	**113**	292
Bank interest income	**(469)**	(201)
Net exchange loss	**1**	8

9. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the period attributable to owners of the Company of approximately HK$36,342,000 (2012: HK$1,210,000) and on the weighted average number of 1,110,331,766 (2012: 411,210,887) ordinary shares during the period.

Diluted earnings per share equal to basic earnings per share as there were no dilutive potential ordinary shares outstanding during the period (2012: diluted earnings per share was same as basic earnings per share as the effect of the conversion of company's outstanding convertible bonds would result in an increase in earnings per share for the six months ended 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 2013, the Group acquired property, plant and equipment amounted to approximately HK$10,428,000 (six months ended 30 June 2012: approximately HK$12,171,000) and disposed of property, plant and equipment with carrying amount of approximately HK$432,000 (six months ended 30 June 2012: approximately HK$425,000).

12. TRADE AND OTHER RECEIVABLES

	At 30 June 2013	At 31 December 2012
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade receivables	**31,938**	28,445
Less: impairment loss recognised	**(6,843)**	(6,733)
	25,095	21,712
Other receivables	**16,235**	13,657
Less: impairment loss recognised	**(8,488)**	(9,453)
	7,747	4,204
Loan receivables	**95,549**	95,549
Less: impairment loss recognised	**(67,549)**	(67,549)
	28,000	28,000
Deposits and prepayments	**153,736**	35,197
	214,578	89,113

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

12. TRADE AND OTHER RECEIVABLES *(Continued)*

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

	At 30 June 2013 HK$'000 (Unaudited)	At 31 December 2012 HK$'000 (Audited)
Within 90 days	**17,059**	15,738
91 to 180 days	**3,492**	4,192
181 to 365 days	**3,086**	1,189
Over 1 year	**1,458**	593
	25,095	21,712

13. TRADE AND OTHER PAYABLES

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

	At 30 June 2013 HK$'000 (Unaudited)	At 31 December 2012 HK$'000 (Audited)
Within 90 days	**6,539**	5,149
91 to 180 days	**144**	196
181 to 365 days	**61**	3,469
Over 1 year	**9,377**	4,887
	16,121	13,701
Other payables	**183,897**	109,066
Interest payables	**17,238**	84,224
	217,256	206,991

14. SHARE CAPITAL

	At 30 June 2013 (Unaudited) Number of shares	Amount HK$'000	At 31 December 2012 (Audited) Number of shares	Amount HK$'000
Authorised capital:				
Ordinary shares of HK$0.50 each				
At the beginning of the period/year	**4,000,000,000**	**2,000,000**	2,000,000,000	2,000,000
Capital reorganisation *(note i)*	**–**	**–**	2,000,000,000	–
At the end of the period/year	**4,000,000,000**	**2,000,000**	4,000,000,000	2,000,000
Convertible preference shares of HK$0.10 each				
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:				
Ordinary shares of HK$0.50 each				
At the beginning of the period/year	**1,110,331,766**	**555,166**	410,331,766	410,332
Capital reorganisation *(note i)*	**–**	**–**	–	(205,166)
Issue of shares upon top-up subscription *(note ii)*	**–**	**–**	82,000,000	41,000
Issue of shares upon placing *(note iii)*	**–**	**–**	138,000,000	69,000
Conversion of convertible bonds *(note iv)*	**–**	**–**	480,000,000	240,000
At the end of the period/year	**1,110,331,766**	**555,166**	1,110,331,766	555,166

14. 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 27 July 2012, pursuant to a placing and subscription agreement entered into with independent third parties, the Company placed out 82,000,000 new ordinary share of HK$0.5 each. The aforesaid placing of shares was completed on 14 August 2012. A sum of net amount approximately HK$39,925,000 after deducting related expenses of approximately HK$1,075,000 was raised and used as working capital of the Group.

(iii) On 14 December 2012, pursuant to a placing and subscription agreement entered into with a placing agent, 138,000,000 existing ordinary share will be placed out to independent third parties of HK$0.51 each. The aforesaid placing of shares was completed on 27 December 2012. A sum of net amount approximately HK$68,288,000 after deducting related expenses of approximately HK$2,092,000 was raised. Approximate 80% and 20% will be used for future business development and general working capital of the Group respectively.

(iv) On 29 June 2012, a CB3 holder converted CB3 with nominal value of HK$40,000,000 into 80,000,000 ordinary shares of HK$0.5 each of the Company.

On 16 October 2012, the CB4 holder converted CB4 with nominal value of HK$60,000,000 into 120,000,000 ordinary shares of HK$0.5 each of the Company.

On 30 October 2012, the CB4 holder sold CB4 with nominal value of HK$100,000,000 to several independent third parties which were then fully converted into 200,000,000 ordinary shares of HK$0.50 each of the Company.

On 1 November 2012, the CB4 holder further converted CB4 with nominal value of HK$40,000,000 into 80,000,000 ordinary shares of HK$0.50 each of the Company.

All new shares issued during the period ended 30 June 2013 rank pari passu in all respects with other shares in issue.

15. CAPITAL COMMITMENT

	At 30 June 2013 HK$'000 (Unaudited)	At 31 December 2012 HK$'000 (Audited)
Capital commitments contracted but not provided for, in respect of acquisition of concession intangible assets and property, plant and equipment	**2,468**	5,681

16. 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:

	At 30 June 2013 HK$'000 (Unaudited)	At 31 December 2012 HK$'000 (Audited)
Within one year	**2,626**	2,282
In the second to fifth years, inclusive	**1,496**	2,243
More than 5 years	**692**	259
	4,814	4,784

17. EVENTS AFTER THE END OF THE INTERIM PERIOD

(1) On 5 July 2013, the China Water Industry (HK) Limited ("Purchaser"), an indirect wholly-owned subsidiary of the Company and three independent third parties ("Vendors") entered into the sale and purchase agreement to acquire the entire equity interest of Nanjing Feng Shang New Technology Limited Liability Company* ("Target Company") for a cash consideration of RMB39,600,000. Upon completion of the acquisition, the Target Company will become an indirect wholly-owned subsidiary of the Company. On 9 August 2013, the Purchaser has paid RMB8 million to Vendors as a partial settlement.

Details of which has been set out in the Company's announcement dated 5 July 2013.

(2) On 6 August 2013, Jiangxi Shunda Construction Engineering Limited* ("Jiangxi Shunda"), an indirect non wholly-owned subsidiary of the Company, and Mr. Zhou Ping Hua* ("Mr. Zhou") entered into the joint venture agreement. Pursuant to the joint venture agreement, the total cash investment in the joint venture company ("JV Company") is RMB80 million, RMB40.8 million, representing 51% of the total investment will be contributed by Jiangxi Shunda and the balance of RMB39.2 million, representing 49% of the total investment, will be contributed by Mr. Zhou. The Scope of business of the JV Company will be property development.

On 15 August 2013, the JV company, the Yingtan City Land Resource Bureau and Mr. Zhou entered into the Contract Amendment Agreement in which the land use rights of the Land will be acquired by the JV Company in place of Mr. Zhou as in the Land Use Right Transfer Contract. The total consideration for the land use rights of the Land is RMB73.5 million.

Up to 15 August 2013, the Jiangxi Shunda has paid a total amount of RMB40.8 million to the JV Company.

Details of which have been set out in the Company's announcements dated 6 August 2013 and 15 August 2013.

(3) On 21 February 2013, the Company and an independent third party (Vendor) entered into the framework agreement to acquire 51% equity interest of the target company at a consideration not more than RMB40,800,000. Pursuant to the clause of termination of the framework agreement, the agreement will automatically terminate if the parties fail to enter into formal agreement within 6 months after execution of the agreement and no extension of time has been agreed upon by the parties.

On 21 August 2013, the Company and the Vendor entered into the extension agreement to extend the long stop date from 20 August 2013 to 31 December 2013. Save and except for the extension of long stop date, all other terms and conditions of the agreement remain unchanged.

Up to this report date, definitive agreement of the aforesaid transaction has not yet been entered.

Details of which has been set out in the Company's announcement dated 21 August 2013.

18. LITIGATIONS AND ARBITRATION

(i) Technostore Limited (in liquidation), an indirect non-wholly-owned 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 Mr. Mao Chi Fai ("Mr. Mao"), 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 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. On 11th August 2012, the Liquidator also advised that they are in the course of preparing the application of the validation order. As at 11th August 2012, the Liquidator advised that the amount of the said validation order should be within HK$0.4 million. On 9th March 2013, the Liquidator advised that the said application of the validation order will not be pursued as there is no benefit to the creditors for taking further action on the same time. The Liquidator also advised that, as a consequence, there will be no further outstanding assets to be handled and the Liquidator will proceed to make an application to the court for his release. As at 16 August 2013, the Liquidator informed the Company that it is presently not in position to make an application to the High Court to release the duty of Liquidator as the necessary documents from Mr. Mao not yet to receive. 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 of the Group.

18. LITIGATIONS AND ARBITRATION *(Continued)*

(ii) Swift Surplus Holdings Limited, an indirect wholly-owned subsidiary of the Company

On 21 August 2012, the Company and its subsidiary of Swift Surplus Holdings Limited ("Swift Surplus") (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 Management Limited ("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$58.43 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. On 29 August 2012, the Company only received HK$5 million of the Loan Receivables. However, the Remaining Loan Receivables of HK$53.43 million and underlying interests were not yet received on 31 December 2012. On 22 March 2013, the Lenders have entered into supplemental deeds with the Borrowers together with their respective guarantors, pursuant to which, approximately HK$18.03 million of the Remaining Loan Receivables and underlying interests shall be repaid to the Lenders on or before 21 March 2014 (the "Partial Payment of the Remaining Loan Receivables"). Nevertheless, the Swift Surplus and Top Vision and its guarantors could not reach an agreement in respect of the terms and date of the repayment of the outstanding balance of HK$35.40 million of the Remaining Loan Receivables and underlying interests (the "Outstanding Balance").

Despite the Company several requests and demands, Top Vision failed to effect payment of the Outstanding Balance. On 14 May 2013, the Company instructed its legal counsel to file the writ of summons ("Writ") to the High Court of Hong Kong Special Administrative Region (the "High Court") to recover the Outstanding Balance from Top Vision. On 25 June 2013, the High Court adjudged a final judgment that Top Vision shall pay the Outstanding Balance to Swift Surplus. Up to the date of the interim report, Top Vision has not performed the repayment obligation under the judgment issued by the High Court. As the major assets owned by the subsidiaries of Top Vision are located in Guangdong Province, the PRC, the Company will undertake recovery actions including but not limited to legal actions taken in PRC to collect the Outstanding Balance.

For the financial year ended 31 December 2010 and 31 December 2011, impairment loss of approximately HK$21.32 million regarding the Loan Receivables have been provided. The Board is considering not to provide a further impairment loss of the Outstanding Balance for the financial period ended 30 June 2013 as the Board believes that the Outstanding Balance could be recovered from the actions taken against Top Vision. As such, no material adverse financial impact to the Group is expected.

18. LITIGATIONS AND ARBITRATION *(Continued)*

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

On 6 November 2007, the People's Government of Danzhou City and Super Sino Investment Limited ("Super Sino") entered into net 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 ("ABC Bank") instituted proceedings with the First Intermediate People's Court of Hainan Province (the "Court") against Danzhou City Water, Super Sino, Danzhou Urban Development Corporation and the People's Government of Danzhou City regarding the abovementioned transfer of the relevant liabilities, claiming for the principal of RMB26 million and the underlying interest thereon repayable by Danzhou City Water and Super Sino. 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 million together with the interest thereon. On 17 December 2009, the ABC Bank made an appeal to the Higher People's Court of Hainan Province seeking the fulfillment of the guarantee responsibility of Danzhou Urban Development Corporation. On 15 December 2010, Higher People's Court of Hainan Province issued the verdict, pursuant to which all the shares of Danzhou Qingyuan (formerly known as Danzhou City Water) owned by Super Sino (the "Shares") had been frozen from 15 December 2010 to 14 December 2012. On 6 December 2012, the court issued another verdict, pursuant to which the frozen period is further extended to 14 December 2013. 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 reason:

(1) Super Sino is still the legal owner of Danzhou City Water from 15 December 2010 to 14 December 2013.

(2) As Danzhou City Water is engaged in the business of provision of water in the PRC, it requires a special license through the approval of the various local government authorities. The procedures to change the shareholding are complicated and time consuming. As such, the change of shareholding will not materialize for the period in concern.

On 28 December 2012, the Group entered into a settlement agreement ("Settlement Agreement 1") with ABC Bank, pursuant to which, ABC Bank conditionally agreed to waive interest payment of approximately RMB60.62 million (HK$74.76 million) and release the pledged assets if the Group could fulfill the following conditions:

(1) the Group has to settle the principal of RMB15 million (HK$18.5 million) and the litigation costs of RMB0.49 million (HK$0.61 million) on or before 31 December 2012; and

(2) the Group has to settle the principal of RMB11 million (HK$13.57 million) and the interest of RMB4,890,000 (HK$6.03 million) on or before 31 December 2013.

18. LITIGATIONS AND ARBITRATION *(Continued)*

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

On 28 January 2013, the Group further entered into a supplemental settlement agreement ("Settlement Agreement 2") with ABC Bank, pursuant to which, it superseded of the conditions stated in the Settlement Agreement 1. According to Settlement Agreement 2, ABC Bank agreed to waive a substantial portion of the interest payment and release the pledged assets once the Group settle the aggregate amount of the principal and the remaining portion of the interest payment of in the amount of approximately RMB31.38 million (HK$38,702,000) ("Debt") on or before 30 June 2013. On 18 April 2013, ABC Bank received moneys from the Company to settle all Debt and agreed to waive the interest payment as mentioned before.

On 6 May 2013, ABC Bank submitted the application to the Court to revoke the freezing of the Shares as the Debt had been settled. On 3 June 2013, the Court had accepted the application. Following the effective of the waiver of interest payment and the release of pledged assets, the Company recorded a total amount of HK$59.75 million as an income in the interim period.

(iv) 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 RMB8.56 million and overdue interests thereon; and

(2) The arbitration fees 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 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. Up to the interim report date, this case is still in the process of execution by Kunming Intermediate People's Court. The aforesaid litigation is unlikely to have any significant material adverse financial impact on the Group

Save and except for the above-mentioned cases, the Company is not aware of any other significant proceedings instituted against the Company.

19. 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.

(i) 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	
	2013	2012
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Short-term benefits	**2,133**	2,042
Post-employment benefits	**36**	35
	2,169	2,077

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

(ii) Other related party transaction

	Six months ended 30 June	
	2013	2012
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Purchase of vehicle from related party	**1,393**	–
	1,393	–

The Company purchased a vehicle from the spouse of Mr. Wang De Yin, the Director, Chairman and Chief Executive Officer of the Company. Such purchase had constituted a related party transaction. Details of which has been set out in Company's announcement dated 17 April 2013.

FINANCIAL PERFORMANCE

RESULTS

Financial Results

For the six months ended 30 June 2013, the Group recorded a consolidated net profit of HK$48.10 million. In comparison with the consolidated net profit of HK$9.46 million in the corresponding period of 2012, the board of directors ("**Board**") considered that the significant increase in net profit of the Group was mainly attributable to: (i) improvement of gross profit mainly from the construction service for water supply; (ii) waiver of loan interest from a lender; and (iii) reduction in finance costs due to the absence of the imputed interest charges on the convertible bonds which were recognized in 2012.

Revenue, Gross Profit and Gross Profit Margin

For the period ended 30 June 2013, the Group has achieved a steady growth in revenue and gross profit, which amounted to HK$169.36 million and HK$71.62 million respectively. This represented a growth of 17.64% in revenue and 21.58% in gross profit in comparison with the corresponding period of 2012. The gross profit margin slightly increased from 40.91% for the six months ended 30 June 2012 to 42.28% for the corresponding period in 2013. The improvement in revenue, gross profit and gross profit margin were contributed by the increase of construction service for water supply. The main contributors were Yichun Water Industry Co., Ltd ("**Yichun Water**") and Yingtan Water Supply Co., Ltd ("**Yingtan Water**"), which collectively accounted for 69.56% of the revenue and 77.61% of the gross profit. The summary of revenue, gross profit and gross profit margin were as follows:

	Revenue				Gross Profit ("G.P")				G.P/Revenue (G.P margin) %	
	2013		2012		**2013**		2012		**2013**	2012
	HK$'M	**%**	*HK$'M*	%	***HK$'M***	**%**	*HK$'M*	%	**%**	%
Water supply business	**59.81**	**35.31**	49.81	34.60	**20.34**	**28.40**	20.03	34.00	**34.00**	40.21
Sewage treatment business	**22.85**	**13.49**	17.42	12.10	**10.29**	**14.37**	7.54	12.80	**45.03**	43.28
Construction services business	**86.70**	**51.20**	76.73	53.30	**40.99**	**57.23**	31.33	53.20	**47.27**	40.83
Total	**169.36**	**100**	143.96	100	**71.62**	**100**	58.90	100	**42.28**	40.91

FINANCIAL PERFORMANCE *(Continued)*

RESULTS *(Continued)*

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$59.81 million, representing 35.31% of the Group's total revenue. The price of water supply ranged from HK$1.58 to HK$2.28 per ton.

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$22.85 million, representing 13.49% of the Group's total revenue. The price of sewage treatment ranged from HK$0.69 to HK$1.63 per ton.

Construction services business 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$86.70 million during the period, representing 51.20% of the Group's total revenue.

Other Operating Income

In the first half of 2013, other operating income was HK$4.04 million (2012: HK$5.23 million). The decrease of HK$1.19 million was due to reduced in income of disinfection handling fees. The income included mainly interest income of HK$0.47 million, disinfection handling fees of HK$0.38 million and rental income of HK$1.05 million for the provision of accommodation to staffs.

Selling and distribution costs and administrative expenses

In the first half of 2013, selling and distribution costs together with administrative expenses were collectively increased by HK$6.83 million to HK$51.61 million (2012: HK$44.78 million). The rise was mainly due to the increase in number of PRC staff, increment of PRC staff salaries and related benefits and the newly established branch office in Shenzhen. These expenses mainly consisted of staff cost including directors' emoluments of HK$23.09 million, legal and professional fee of HK$1.60 million, repair and maintenance of HK$1.08 million and depreciation of HK$2.89 million.

Finance costs

In the first half of 2013, the finance costs of the Group were HK$9.45 million, representing a decrease of HK$12.84 million from HK$22.29 million for the same period of last year. The decrease was due to the absence of imputed interest charges on the convertible bonds ("**CBs**"). For the reporting period, the Company does not have any more outstanding CB in 2013, upon the full conversion by the holders in 2012. 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 bank interest of HK$8.08 million and the interest of HK$1.30 million on other loans.

FINANCIAL PERFORMANCE *(Continued)*

RESULTS *(Continued)*

Wavier of loan interest

In the first half of 2013, the waiver of loan interest recorded HK$59.75 million, representing an increase of HK$45.77 million from HK$13.98 million for the same period of last year. The increase is due to ABC Bank agreed to waive a substantial portion of the interest payment and release the pledged assets once the Group settles the aggregate amount of the principal and the remaining portion of the interest payment in the amount of approximately RMB31.38 million. The aforesaid waived interest of HK$59.75 million was recorded as an income in the interim period. Details of which are provided in item (iii) of Note 18 of this report.

Share of results from associates

The Group had three associated companies, which held 35% equity interests in Jinan Hongquan Water Production Co., Ltd ("**Jinan Hongquan**"), 10% equity interests in Yu Jiang Hui Min Small Sum Loan Company Limited* ("**Yu Jiang**") and 50% equity interests in Jiangxi Mei Ya Industrial Limited* ("**Jiangxi Mei Ya**"). As at 30 June 2013, the Group shared the loss results of HK$6.67 million which was mainly from the loss of HK$7.43 million from Jinan Hongquan and the profit of HK$0.69 million from Yu Jiang (2012: loss of HK$2.60 million).

Income tax

In the first half of 2013, the income tax had increased substantially by HK$13.23 million to HK$21.50 million (2012: HK$8.26 million). Certain subsidiaries in the PRC enjoyed the tax concession benefits for the exemption to pay PRC income tax for two years from the first profit making year, followed by a 50% reduction for the next three years. For the interim period 2013 and 2012, the PRC standard income tax rate was at 25%. The expiration of the full tax exemption made certain subsidiaries in the PRC had started to pay the PRC income tax and the increase of operating profits were also leading to the rise of income tax.

Profit attributable to Equity Holders

For the period ended 30 June 2013, profit attributable to equity holders of the Company was approximately HK$36.34 million (2012: profit of HK$1.21 million), an increase of HK$35.13 million.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2013, the Group recorded cash and bank balance including cash held at financial institutions of HK$174.37 million (compared with HK$239.25 million on 31 December 2012). The cash and bank balance were denominated in Hong Kong dollars and Renminbi. The decrease was mainly due to (i) tender deposits paid for construction projects; (ii) no fund raising activities held during the interim period and (iii) investment in equity securities. The current ratio (current assets over current liabilities) is 1.39 times as at 30 June 2013 (2012: 1.17 times). The Group has had steady cash flow generating from the water supply and sewage treatment business segments. With the steady cash flows, the Group will have sufficient working capital to meet its financial obligations in full as they fall due in the foreseeable future.

Total liabilities of the Group as at 30 June 2013 were HK$544.56 million (compared with HK$534.88 million on 31 December 2012). The increase was mainly due to addition government loan of HK$19.15 million provided to Yingtan Water. Total liabilities mainly comprised of the bank and other borrowings of HK$163.36 million (31 December 2012: HK$169.53 million), government grants of HK$90.65 million (31 December 2012: HK$90.32 million) and trade and other payable of HK$217.26 million (31 December 2012: HK$206.99 million). They were mainly denominated in Renminbi and the interest rates of which were fixed.

The Group's gearing ratio as at 30 June 2013 was 41.79% (31 December 2012: 43.16%). The ratio was calculated by dividing total liabilities of HK$544.56 million over total assets of the Group of HK$1,302.99 million.

TRADE AND OTHER RECEIVABLES

As at 30 June 2013, the Group's trade and other receivables were approximately HK$214.58 million (31 December 2012: HK$89.11 million). These comprised of: (i) trade receivables of HK$25.10 million, (ii) other receivables of HK$7.75 million, (iii) loan receivables of HK$28 million, and (iv) deposits and prepayments of HK$153.74 million. During the period, the trade receivables increased by HK$3.38 million to HK$25.10 million (31 December 2012: HK$21.71 million) which was mainly due to the increase of operating activities in the construction services business. The average turnover period of the trade receivables as at 30 June 2013 were 68 days (30 June 2012: 84 days). The Group allows credit period of 30 to 180 days to its customers. The average turnover period of the trade receivables were within the credit periods. The deposits and prepayments increased substantially by HK$118.55 million to HK$153.74 million (31 December 2012: HK$35.19 million), which was mainly contributed by several tender deposits for the construction projects of approximately HK$56.40 million and HK$68.93 million paid by Yingtan Xinjiang Water Treatment Engineering Limited* and Jiangxi Shunda respectively, both are the indirect non wholly-owned subsidiaries of the Company. Subsequent to the interim period, the tender deposit of HK$56.40 million was refunded by the relevant local government in the PRC due to the unsuccessful tender bid. The loan receivable of HK$28 million due from Top Vision Management Ltd. ("**Top Vision**") (31 December 2012: HK$28 million) is still outstanding. During the interim period, the Company had taken legal proceeding to recover the money from Top Vision. On 25 June 2013, the Court ordered Top Vision to fully repay the said loan together with the interests thereon. Details of which are provided in item (ii) of Note 18 of this report.

TRADE AND OTHER PAYABLES

As at 30 June 2013, the Group's trade and other payables were approximately HK$217.26 million (31 December 2012: HK$206.99 million). The credit terms of trade payables vary according to the terms agreed with different supplier.

CAPITAL RAISING AND USE OF PROCEEDS

The Company has not conducted any equity fund raising activities during the interim period.

During the first half of 2013, the Group incurred capital expenditures amounting to HK$11.06 million for acquisition of concession intangible assets (31 December 2012: HK$31.01 million).

MAJOR EVENTS DURING THE PERIOD UNDER REVIEW

Repayment of loan proposed by BIHL

On 20 August 2012, the Company instructed its legal counsel to issue a statutory demand letter ("**Demand Letter 1**") 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**"). After various rounds of negotiation, an in-principle agreement was reached on 11 September 2012 on the issuing of CB by BIHL to the Company subject to the parties' execution of formal documentation. Subsequently, the Company withdrew the Demand Letter 1 on the same day. In December 2012, BIHL informed the Company that it was in discussions with various buyers for the Birmingham City Football Club plc, ("**Intended Sales**") and proposed that upon completion of the said Intended Sale, BIHL would repay the loan due to the Company. In light of this, the Company agreed to consider withholding steps to enforce its claim whilst BIHL was in discussions for the Intended Sale, but in any event this to withhold action would only be effective until 14 March 2013. As the debt remained outstanding on 14 March 2013, the Company instructed its legal counsel to issue a fresh Demand Letter ("**Demand Letter 2**") to BIHL on 25 March 2013. On 27 March 2013, BIHL replied that they will endeavor to close the Intended Sales, and the progress with the resumption in trading of its shares seems positive. Under this circumstances, BIHL would enter into the negotiations of a proposal for the loan repayment with the Company once a sale deposit is received from the potential buyer of the football club. If the Intended Sales cannot complete within 5 months but after resumption in trading of BIHL's shares, BIHL is willing to propose to issue debt securities or shares to the Company for the settlement consideration. In this connection, the Company withdrew the Demand Letter 2 in May 2013. Subsequent to the interim period, BIHL provided the repayment proposal suggesting the Company taking a two-thirds haircut on the total outstanding debts (inclusive of interest) of approximately HK$56 million and accept one-third of the Debts to be payable fully in cash by no later than 12 months from the proposal date of 16 August 2013. Up to the 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 this interim period as approximately HK$40.75 million of the BIHL loan was impaired in 2011.

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

Disposal of shares of Chinese Energy Holdings Limited

On 18 December 2012 and 30 January 2013, Bonus Raider Investments Limited ("**Bonus Raider**"), a wholly-owned subsidiary of the Company, had through Astrum Capital Management Limited ("**Agent**") to sell 96,244,700 Shares in total of Chinese Energy Holdings Limited ("**Chinese Energy Shares**") to 4 independent third parties at cash consideration of HK$21.41 million. This proceed of the disposal was intended to be applied as general working capital and business developments of the Group. Immediately after the completion of the Disposals, the Group was not interested in any Chinese Energy Shares.

MAJOR EVENTS AFTER THE PERIOD UNDER REVIEW

Acquisition of subsidiaries

- On 5 July 2013, Mr. Li Jian Ping*, Mr. Li Kun* and Ms. Yin Qin* (collectively as "**Vendors**") and China Water Industry (HK) Limited, an indirect wholly-owned subsidiary of the Company (the "**Purchaser**") entered into the Sale and Purchase Agreement, pursuant to which the Vendors have agreed to sell and the Purchaser has agreed to acquire the 100% equity interest of Nanjing Feng Shang New Technology Limited Liability Company* (the "**Target Company**") for a cash consideration of RMB39,600,000. Upon completion of the Acquisition, the Target Company will become an indirect wholly-owned subsidiary of the Company. Pursuant to the Sale and Purchase Agreement, the Purchaser shall pay the consideration to the Vendors subject to the fulfillment of condition precedents. On 9 August 2013, Vendors have fulfilled the first condition precedent of getting the approval by the Ministry of Commence of the PRC and obtaining the consent from Nanjing Investment Promotion Committee. The Purchaser has paid RMB8 million to Vendors as a partial settlement accordingly. Up to the report date, the acquisition has not been completed.

- On 21 February 2013, the Company entered into a framework agreement ("**Agreement**") with 廣東新科迪環保科技有限公司 (Guangdong Sincody Science Technology Co. Ltd*) ("**Vendor**") for the purpose of acquiring 51% of the entire equity interest of 東莞市科迪環保科技有限公司 (Dongguan Kedi Environment Protection Science and Technology Co., Ltd*) ("**Target Company**") at a consideration not more than RMB40.80 million. The acquisition will be proceeded once the Vendor injects all assets and liabilities of the power plant into the Target Company and have satisfied the requirement of due diligence investigation. The power plant generates power by burning biogas from garbage landfill and has been planned to commence power generation in February 2013. Pursuant to the clause of termination under the Agreement, the Company and Vendor fail to enter into formal agreement within 6 months after execution of the Agreement, and no extension of time has been agreed. The Agreement will automatically terminate. On 21 August 2013, the Company and the Vendor have unanimously agreed to extend the long stop date from 20 August 2013 to 31 December 2013 ("**Long Stop Date**") by entering into the extension agreement. Save and except for the extension of Long Stop Date, all other terms and conditions of the Agreement remain unchanged. Up to the report date, no formal agreement has been signed by the relevant parties.

MAJOR EVENTS AFTER THE PERIOD UNDER REVIEW *(Continued)*

Formation of Joint Venture Company and acquisition of land use right

On 6 August 2013, Jiangxi Shunda and Mr. Zhou entered into the JV Agreement to establish the JV Company for the acquisition of the Land and to cooperate in the development of the Land. Pursuant to the JV Agreement, the total cash investment in the JV Company is approximately RMB80 million, RMB40.80 million, representing 51% of the total investment will be contributed by Jiangxi Shunda and the balance of RMB39.20 million, representing 49% of the total investment, will be contributed by Mr. Zhou. On 15 August 2013, the Yingtan City Land Resource Bureau, Mr. Zhou and the JV Company entered into the Contract Amendment Agreement, in which the land use rights of the Land will be acquired by the JV Company in place of Mr. Zhou as in the Land Use Right Transfer Contract. The total consideration for the land use rights of the Land is RMB73.50 million. Up to 15 August 2013, Jiangxi Shunda has contributed RMB40.80 million in cash to JV Company.

LITIGATIONS AND ARBITRATION

Please refer to the Note 18 of this report.

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.

CAPITAL COMMITMENTS

As at 30 June 2013, the Group has the capital commitments contracted but not provided for acquisition of property, plant and equipment approximately HK$2.47 million (2012: HK$5.70 million).

CONTINGENT LIABILITIES

As at 30 June 2013, the Group did not have any significant contingent liabilities (2012: Nil).

PLEDGE OF ASSETS

The Group's bank loans and other loans of HK$54.78 million in total as at 30 June 2013 (31 December 2012: HK$86.65 million) were secured by: (i) charges over property, plant and equipment in which their carrying amount was HK$0.81 million; (ii) charges over trade receivables in which their aggregate carrying amount was HK$6.64 million; and (iii) charges over concession intangible assets in relation to exclusive operating rights for provision of water supply and sewage treatment service to the public users in which their aggregate carrying amount was HK$76.69 million.

EMPLOYEES

As at 30 June 2013, excluding jointly controlled entities and associates, the Group had 1121 (30 June 2012: 1001) employees, of which 9 (30 June 2012: 13) are Hong Kong employees. During the period, total employee benefit expenses, including directors' emoluments and provident funds, was HK$30.44 million (30 June 2012: HK$28.03 million). The increase was mainly due to the fact that the number of the Group's employees has increased and their salary has risen. Employees were remunerated on the basis of their performance and experience. Remuneration packages include salary and a year-end discretionary bonus, which are determined with reference to market conditions and individual performance. During the period, all of the Hong Kong employees have participated in the Mandatory Provident Fund Scheme, and a similar benefit scheme is offered to employees in Mainland China. In addition, the Group encourage employees' participation in continuing training programmes, seminars and e-learning through which their career, knowledge and technical skills can be enhanced with the development of individual potentials.

NO MATERIAL CHANGE

Save as disclosed above, during the six months ended 30 June 2013, there has been no material change in the Group's financial position or business since the publication of the latest annual report of the Company for the year ended 31 December 2012.

FUTURE PROSPECT

Our new management formulated the following three-year development plan in end-2011:

2012: Restructuring and consolidation to strengthen management and maintain profitability

2013: Expansion in terms of size and reach to increase effectiveness and maintain growth

2014: Innovation and synergy for brand enhancement and sustainability

In 2012, our major restructuring and consolidation were completed smoothly to achieve overall profitability of the company. Following the improvement in the entire operational environment of the company, our operating results would also be on the rise gradually.

In 2012, we thoroughly resolved the problem of the historical debts of Danzhou Qingyuan Water Industry Company Limited* ("**Danzhou Qingyuan**"). The Group succeeded in executing the repayment agreements with creditors including the Agricultural Bank of China. The repayment was commenced in 2012 but owing to the reasons such as the foreign exchange settlement, the debts of Danzhou Qingyuan were paid off in the first half of 2013. Hence, the exempted debts have increased the revenue of the Company.

FUTURE PROSPECT *(Continued)*

According to the requirements of expansion in terms of size and reach, we have actively been seeking for new projects. As planned by the Group after repeated testimony, the integrated treatment of garbage landfill gas power generation and urban refuse would be the next major investment of the Company. The official acquisition of the waste power generation project of Nanjing Feng Shang New Technology Co., Ltd.* (南京豐尚新能源科技有限公司) marked the Group's formal launch of business in the sector of solid waste treatment.

At present, we are actively looking for large-scale waste power generation projects to expand the scale of our garbage landfill gas power generation classified under the category of renewable resources and recycling resources with the feature of complete zero emission beneficial to the nation and its people and received great support from the PRC government. Following the launch of the domestic carbon emission trading, the waste power generation would increase its revenue further. Therefore, it is likely that the waste power generation will become the new profit growth point of the Company.

Yingtan Water Supply Co., Ltd., a subsidiary of the Group, has completed the official adjustment of the water tariffs and Hainan Danzhou Water Supply Co., Ltd. (海南儋州自來水有限公司) has completed the hearing for the adjustment of tariffs as well. Other water supply companies have also begun to carry out the adjustment work of the water tariffs. The reasonable adjustment of the water tariffs will increase the revenue of the investment in waterworks.

Waterworks development remains to be our current major business. We would still look for good waterworks projects to expand the scale of waterworks and increase the effectiveness of waterworks.

In 2013, our role is to reinforce the effectiveness and maintain the year-on-year growth of the company's operating results. Therefore, we place great emphasis on the effectiveness and future development prospects in the merger and acquisition of the projects.

The serious shortage of water resources and the people's higher requirements for environmental protection provide new opportunities for our next development. The PRC's implementation of the strictest administration policy for water resources and the great support for clean energies are the impetus for our next development. Therefore, the Company has full of confidence in the future development.

INTERIM DIVIDENDS

The Directors do not recommend the payment of a interim dividend for the six month ended 30 June 2013 (2012: Nil).

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 30 June 2013, 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)	0.04%

For the purpose of this section, the shareholding percentage in the Company is calculated on the basis of 1,110,331,766 Shares in issue as at 30 June 2013.

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

Save as disclosed above, as at 30 June 2013, 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.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2013, 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 issued ordinary shares held	Approximate Percentage of the issued share capital of the Company
Deng Jun Jie	Interest of controlled corporation	280,000,000 (L) *(Note 1)* –	25.21%
Honghu Capital Co. Ltd.	Beneficial owner	280,000,000 (L) *(Note 1)*	25.21%

Note 1: These Shares are held by Honghu Capital Co. Ltd. ("**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: The shareholding percentage in China Water is calculated on the basis of 1,110,331,766 China Water Shares in issue as at 30 June 2013.

Note 3: The letter "L" denotes a long position in Shares.

DIRECTORS' RIGHTS TO ACQUIRES OR DEBENTURES

Save as disclosed under the heading "Share option scheme" below, at no time during the year 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 ("**Scheme**"). The 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. From the date of Scheme being adopted up to the period ended 30 June 2013, there are no share option has been granted.

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 six months ended 30 June 2013.

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 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 Board believed that the Company has complied with the code provisions of Corporate Governance Code ("**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**") during the six months ended 30 June 2013 except for the following deviations:

- Pursuant to the Code Provision of A.2.1 of the CG Code, the roles of the chairman and chief executive officer of the Company should be separate and should not be performed by the same individual. On 19 July 2012, Mr. Wang De Yin ("**Mr. Wang**"), currently is the Chairman of the Company, was appointed as a Chief Executive Officer of the Company ("**CEO**"). The Board has evaluated the current situation of the Group and taken into account of the experience and past performance of Mr. Wang, the Board was of the opinion that it was appropriate and in the best interest of the Company at the present stage for vesting the roles of the Chairman and the CEO of the Company in the same person as it helps to facilitates the execution of the Group's business strategies and maximizes the effectiveness of its operation. The Board will nevertheless review this structure from time to time and will consider the segregation of the two roles at the appropriate time.

- Pursuant to the Code Provision of A.4.1 of the CG Code, non-executive Directors should be appointed for a specific term, subject to re-election while all Directors should be subject to retirement by rotation at least once every three years. All independent non-executive Directors of the Company were not appointed for a specific term but they are subject to retirement by rotation and re-election at annual general meetings of the Company in line with the Company's Article of Association

- Pursuant to code provision A.6.7 of the CG Code, the independent non-executive Directors and other non-executive Directors should attend general meetings. At the annual general meeting of the Company held on 29 May 2013 ("**2013 AGM**"), save as Mr. Guo Chao Tian, an independent non-executive Director who was unable to attend due to his business engagement in China, all Directors of the Company had attended the 2013 AGM, at which the Directors had communicated with and developed a balanced understanding of the views of the Shareholders

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 auditing, internal controls and financial reporting matters including the review of the unaudited interim financial statements for the six months ended 30 June 2013. The terms of reference of the Audit Committee is available on the Company's website and on the Stock Exchange's website.

REMUNERATION COMMITTEE

The Remuneration Committee comprises 2 independent non-executive Directors of the Company and 1 executive Director of the Company, is responsibility for reviewing and evaluating the remuneration policies of executive Directors and senior management and making recommendations to the Board from time to time. The terms 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 comprises 2 independent non-executive Directors of the Company and 1 executive Director 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 revised terms 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 and 2 deputy general managers 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 terms of reference of the Investment Committee is available on the Company's website.

PUBLICATION OF THE INTERIM RESULTS AND REPORT

The interim report for 2013 is published on the websites of the Company (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. Chu Yin Yin, Georgiana and Ms. Deng Xiao Ting, all being executive Directors and Mr. Wong Siu Keung, Joe, Mr. Li Jian Jun and Mr. Guo Chao Tian, all being independent non-executive Directors.

APPRECIATION

On behalf of the Board and the management, I would like to express our gratitude to all shareholders, investors and business partners for their on-going trust and support, as well as the local governments for their support and assistance to the subsidiaries. Meanwhile, I would also like to thank the employees of the Group for their valuable contributions. I hope that all of us would continue to go ahead hand-in-hand with the Group for making mutual advancement for the years to come.

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

Hong Kong, 29 August 2013

* *For identification purpose only*