



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

Making the world  
endowed with  
clear **water**, blue **sky**  
and vivid **green land**



2014  
Interim Report

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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

### 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

Mr. Li Jian Ping

## 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

Crowe Horwath (HK) CPA 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  
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Sheung Wan, Hong Kong

### **CONTACTS**

Telephone: (852) 2547 6382  
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### **STOCK CODE**

1129

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2014

|   | Notes | Six months ended 30 June        |                                 |
|---|-------|---------------------------------|---------------------------------|
|   |       | 2014<br>HK\$'000<br>(Unaudited) | 2013<br>HK\$'000<br>(Unaudited) |
| Revenue   | 4     | 204,237                         | 169,362                         |
| Cost of sales   |       | (131,495)                       | (97,743)                        |
| Gross profit  |       | 72,742                          | 71,619                          |
| Other operating income  |       | 6,033                           | 4,044                           |
| Change in fair value of financial assets at fair value through profit or loss |       | 55,522                          | –                               |
| Change in fair value of derivative financial instruments                      |       | 24,390                          | –                               |
| Gain on disposal of available-for sale investments                            |       | 21,770                          | 803                             |
| Waiver of loan interest and interest payables                                 |       | –                               | 59,748                          |
| Reversal of impairment loss recognised on trade and other receivables         |       | –                               | 1,119                           |
| Selling and distribution expenses   |       | (13,958)                        | (9,415)                         |
| Administrative expenses   |       | (61,155)                        | (42,190)                        |
| Finance costs   | 6     | (26,404)                        | (9,454)                         |
| Share of results of associates  |       | (5,850)                         | (6,674)                         |
| Profit before tax   |       | 73,090                          | 69,600                          |
| Income tax expense  | 7     | (11,315)                        | (21,496)                        |
| Profit for the period   | 8     | 61,775                          | 48,104                          |
| Attributable to:  |       |                                 |                                 |
| Owners of the Company   |       | 60,476                          | 36,342                          |
| Non-controlling interests   |       | 1,299                           | 11,762                          |
|   |       | 61,775                          | 48,104                          |
| <b>Earnings per share (HK cents)</b>  |       |                                 |                                 |
| Basic and diluted   | 9     | 5.33                            | 3.27                            |

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME *(Continued)*

For the six months ended 30 June 2014

|   | Notes | Six months ended 30 June        |                                 |
|---|-------|---------------------------------|---------------------------------|
|   |       | 2014<br>HK\$'000<br>(Unaudited) | 2013<br>HK\$'000<br>(Unaudited) |
| Profit for the period   |       | 61,775                          | 48,104                          |
| Other comprehensive income for the period   |       |                                 |                                 |
| Items that may be reclassified subsequently to profit or loss:  |       |                                 |                                 |
| Exchange difference on translation of financial statements of overseas subsidiaries                   |       | (6,680)                         | 8,631                           |
| Reclassification adjustments relating to disposed of available-for-sale investments during the period |       | (1,897)                         | –                               |
| Net gain (loss) arising on revaluation of available-for-sale investments during the period            |       | 22,727                          | (664)                           |
| Share of other comprehensive income of associates   |       | (615)                           | 1,412                           |
| Other comprehensive income for the period   |       | 13,535                          | 9,379                           |
| Total comprehensive income for the period   |       | 75,310                          | 57,483                          |
| Attributable to:  |       |                                 |                                 |
| Owners of the Company   |       | 77,084                          | 42,010                          |
| Non-controlling interests   |       | (1,774)                         | 15,473                          |
|   |       | 75,310                          | 57,483                          |

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2014

|   | Notes | At 30 June<br>2014<br>HK\$'000<br>(Unaudited) | At 31 December<br>2013<br>HK\$'000<br>(Audited) |
|---|-------|---|---|
| <b>Non-current assets</b>                                   |       |   |   |
| Property, plant and equipment                               | 11    | 163,012                                       | 161,433   |
| Prepaid lease payments                                      |       | 40,314  | 41,381  |
| Concession intangible assets                                |       | 628,485                                       | 622,630   |
| Investment property   |       | 20,837  | 21,037  |
| Other intangible assets                                     |       | 61,289  | 59,763  |
| Available-for-sale investments                              |       | 146,499                                       | 95,781  |
| Interest in associates                                      |       | 31,558  | 32,680  |
| Deposit paid for acquisition of plant and equipment         |       | 12,086  | 272   |
| Deposit paid for acquisition of other intangible assets     |       | 12,598  | –   |
| Deposit paid for acquisition of subsidiaries                |       | 83,026  | –   |
| Deposit paid for acquisition of prepaid lease payments      |       | –   | 40,701  |
| Deferred tax assets   |       | 1,214   | 1,226   |
|   |       | <b>1,200,918</b>                              | 1,076,904                                       |
| <b>Current assets</b>                                       |       |   |   |
| Inventories   |       | 128,463                                       | 24,581  |
| Trade and other receivables                                 | 12    | 140,291                                       | 108,364   |
| Prepaid lease payments                                      |       | 1,294   | 1,307   |
| Amounts due from customers for contract works               |       | 21,547  | 8,790   |
| Financial assets at fair value through profit or loss       |       | 80,522  | –   |
| Cash held at financial institutions                         |       | 9,091   | 8,797   |
| Bank balances and cash                                      |       | 335,765                                       | 241,767   |
|   |       | <b>716,973</b>                                | 393,606   |
| <b>Current liabilities</b>                                  |       |   |   |
| Trade and other payables                                    | 13    | 181,371                                       | 157,459   |
| Amounts due to customers for contract works                 |       | 20,491  | 11,693  |
| Bank borrowings   |       | 42,495  | 42,116  |
| Other loans   |       | 61,115  | 65,722  |
| Amounts due to non-controlling shareholders of subsidiaries |       | 48,431  | 3,803   |
| Loan from an associate                                      |       | 3,227   | 3,178   |
| Convertible bonds   | 14    | 197,497                                       | 107,352   |
| Tax payables  |       | 36,596  | 41,508  |
|   |       | <b>591,223</b>                                | 432,831   |
| <b>Net current assets (liabilities)</b>                     |       | <b>125,750</b>                                | (39,225)  |
| <b>Total assets less current liabilities</b>                |       | <b>1,326,668</b>                              | 1,037,679                                       |

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

At 30 June 2014

|  | Notes | At 30 June<br>2014<br>HK\$'000<br>(Unaudited) | At 31 December<br>2013<br>HK\$'000<br>(Audited) |
|--|-------|---|---|
| <b>Capital and reserves</b>                  |       |   |   |
| Share capital                                | 15    | 666,166                                       | 555,166   |
| Share premium and reserves                   |       | 170,992                                       | (11,492)  |
| Equity attributable to owners of the Company |       | 837,158                                       | 543,674   |
| Non-controlling interests                    |       | 277,088                                       | 282,827   |
| <b>Total equity</b>                          |       | <b>1,114,246</b>                              | 826,501   |
| <b>Non-current liabilities</b>               |       |   |   |
| Bank borrowings                              |       | 27,715  | 26,710  |
| Other loans                                  |       | 53,983  | 52,619  |
| Government grants                            |       | 93,736  | 95,980  |
| Deferred tax liabilities                     |       | 36,988  | 35,869  |
|  |       | 212,422                                       | 211,178   |
|  |       | <b>1,326,668</b>                              | 1,037,679                                       |



# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014

|   | Attributable to owners of the Company |               |                     |                     |                                |                      |                    | Non-controlling interests | Total    |
|---|---------------------------------------|---------------|---------------------|---------------------|--------------------------------|----------------------|--------------------|---------------------------|----------|
|   | Share capital                         | Share premium | Revaluation reserve | Translation reserve | Investment revaluation reserve | Reserve funds        | Accumulated losses |                           |          |
|   | HK\$'000                              | HK\$'000      | HK\$'000            | HK\$'000            | HK\$'000                       | HK\$'000<br>(Note 1) | HK\$'000           | HK\$'000                  | HK\$'000 |
| <b>At 1 January 2013</b>                              |                                       |               |                     |                     |                                |                      |                    |                           |          |
| (as previously reported)                              | 555,166                               | 484,002       | 3,553               | 46,557              | 1,110                          | 14,445               | (629,840)          | 474,993                   | 704,552  |
| Effect of prior year adjustment<br>(Note 2)           | -                                     | -             | -                   | (443)               | -                              | -                    | (9,607)            | (10,050)                  | (19,705) |
| At 1 January 2013<br>(audited and restated)           | 555,166                               | 484,002       | 3,553               | 46,114              | 1,110                          | 14,445               | (639,447)          | 464,943                   | 684,847  |
| Profit for the period                                 | -                                     | -             | -                   | -                   | -                              | -                    | 36,342             | 36,342                    | 48,104   |
| Other comprehensive income<br>for the period          | -                                     | -             | -                   | 6,332               | (664)                          | -                    | -                  | 5,668                     | 9,379    |
| <b>Total comprehensive income<br/>for the period</b>  | -                                     | -             | -                   | 6,332               | (664)                          | -                    | 36,342             | 42,010                    | 57,483   |
| Acquisition of additional interest<br>of a subsidiary | -                                     | -             | -                   | -                   | -                              | (1,229)              | -                  | (1,229)                   | (3,599)  |
| Transfer  | -                                     | -             | -                   | -                   | -                              | 1,823                | (1,823)            | -                         | -        |
| <b>At 30 June 2013</b>                                |                                       |               |                     |                     |                                |                      |                    |                           |          |
| (unaudited and restated)                              | 555,166                               | 484,002       | 3,553               | 52,446              | 446                            | 15,039               | (604,928)          | 505,724                   | 738,731  |

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

For the six months ended 30 June 2014

|  | Attributable to owners of the Company |               |                     |                     |                                |               |                    | Non-controlling interests | Total    |           |
|--|---------------------------------------|---------------|---------------------|---------------------|--------------------------------|---------------|--------------------|---------------------------|----------|-----------|
|  | Share capital                         | Share premium | Revaluation reserve | Translation reserve | Investment revaluation reserve | Reserve funds | Accumulated losses |                           |          |           |
|  | HK\$'000                              | HK\$'000      | HK\$'000            | HK\$'000            | HK\$'000                       | HK\$'000      | HK\$'000           | HK\$'000                  | HK\$'000 |           |
| <b>At 1 January 2014 (audited)</b>   | 555,166                               | 484,002       | 3,553               | 56,618              | 9,147                          | 22,326        | (587,138)          | 543,674                   | 282,827  | 826,501   |
| Profit for the period  | -                                     | -             | -                   | -                   | -                              | -             | 60,476             | 60,476                    | 1,299    | 61,775    |
| Other comprehensive income for the period  | -                                     | -             | -                   | (4,222)             | 20,830                         | -             | -                  | 16,608                    | (3,073)  | 13,535    |
| <b>Total comprehensive income for the period</b>                                       | -                                     | -             | -                   | (4,222)             | 20,830                         | -             | 60,476             | 77,084                    | (1,774)  | 75,310    |
| Placing of new shares  | 111,000                               | 111,000       | -                   | -                   | -                              | -             | -                  | 222,000                   | -        | 222,000   |
| Transaction costs attributable to issue of shares                                      | -                                     | (5,600)       | -                   | -                   | -                              | -             | -                  | (5,600)                   | -        | (5,600)   |
| Capital injection from non-controlling shareholders of a newly incorporated subsidiary | -                                     | -             | -                   | -                   | -                              | -             | -                  | -                         | 3,392    | 3,392     |
| Dividends paid to non-controlling shareholders   | -                                     | -             | -                   | -                   | -                              | -             | -                  | -                         | (7,357)  | (7,357)   |
| <b>At 30 June 2014 (unaudited)</b>   | 666,166                               | 589,402       | 3,553               | 52,396              | 29,977                         | 22,326        | (526,662)          | 837,158                   | 277,088  | 1,114,246 |

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.
- In the preparation of the consolidated financial statement for the year ended 31 December 2013, the Group had rectified the incorrect accounting for contract revenues collected prior to 31 December 2011. Effect of such correction on the consolidated statement of financial position and consolidated statement of profit or loss and other comprehensive income as at and for the year ended 31 December 2012 has been disclosed in note 4 of the consolidated financial statement of the Group for the year ended 31 December 2013.

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2014

|   | Six months ended 30 June        |                                 |
|---|---------------------------------|---------------------------------|
|   | 2014<br>HK\$'000<br>(Unaudited) | 2013<br>HK\$'000<br>(Unaudited) |
| NET CASH USED IN OPERATING ACTIVITIES   | <b>(30,089)</b>                 | (31,298)                        |
| NET CASH USED IN INVESTING ACTIVITIES   | <b>(174,103)</b>                | (9,398)                         |
| NET CASH FROM (USED IN) FINANCING ACTIVITIES  | <b>299,803</b>                  | (25,375)                        |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS  | <b>95,611</b>                   | (66,071)                        |
| CASH AND CASH EQUIVALENTS AT 1 JANUARY  | <b>250,564</b>                  | 239,249                         |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES   | <b>(1,319)</b>                  | 1,193                           |
| CASH AND CASH EQUIVALENTS AT 30 JUNE,<br>represented by bank balances and cash and cash<br>held at financial institutions | <b>344,856</b>                  | 174,371                         |

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2014

## 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 2013, which have been prepared in accordance with Hong Kong Financial Reporting Standards.

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

For the six months ended 30 June 2014

## 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 2014 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2013 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.

|  |  |
|--|--|
| HKFRS 10, HKFRS 12 and<br>HKAS 27 (Amendments) | Investment Entities  |
| HKAS 32 (Amendments)                           | Offsetting Financial Assets and Financial Liabilities        |
| HKAS 39 (Amendments)                           | Novation of Derivatives and Continuation of Hedge Accounting |
| HK (IFRIC) – Int 21                            | Levies   |

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.

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.

|  |  |
|--|--|
| HKAS 19 (Amendments)<br>Annual Improvements in 2012<br>Annual Improvements in 2013 | Defined Benefit Plans: Employee Contributions <sup>1</sup><br>Annual Improvements for 2010-2012 Cycle <sup>1</sup><br>Annual Improvements for 2011-2013 Cycle <sup>1</sup> |
| HKFRS 14   | Regulatory Deferral Accounts <sup>2</sup>  |
| HKAS 11 (Amendments)   | Accounting Methods for Acquisition of Interests in Joint Ventures <sup>2</sup>   |
| HKAS 16 and HKAS 38<br>(Amendments)  | Clarification of Acceptable Methods of Depreciation and Amortisation <sup>2</sup>  |
| HKAS 15  | Revenue from Contracts with Customers <sup>3</sup>   |
| HKFRS 9  | Financial Instruments <sup>4</sup>   |
| Amendments to HKFRS 9 and<br>HKFRS 7   | Mandatory Effective Date of HKFRS 9 and Transition Disclosures <sup>4</sup>  |

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2014

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2016

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2017

<sup>4</sup> Available for application – the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised

The Group is in the process of making an assessment of the impact of adopting the new standards and the amendments to the standards and interpretation that have been issued but are not yet effective. The Group anticipates that there will be no material impact on the condensed consolidated interim financial information.

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

For the six months ended 30 June 2014

### 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        |                                 |
|--|---------------------------------|---------------------------------|
|  | 2014<br>HK\$'000<br>(Unaudited) | 2013<br>HK\$'000<br>(Unaudited) |
| Water supply services  | 74,649                          | 59,810                          |
| Sewage treatment services  | 23,977                          | 22,854                          |
| Water supply related installation and construction income            | 67,495                          | 77,950                          |
| Water supply and sewage treatment infrastructure construction income | 27,926                          | 8,748                           |
| Others   | 10,190                          | –                               |
|  | <b>204,237</b>                  | 169,362                         |

Others represented sales of electricity to a provincial power grid company and tariff adjustment received and receivable from a relevant government authority.

### 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 manages its businesses by divisions, which are organised by business lines. The Group's revenue are mainly derived from provision of water supply and sewage treatment as well as construction services primarily in the PRC, which is regarded as a single reportable operating segment in a manner consistent with the way in which information is reported internally to the Group's board of directors for purposes of resources allocation and performance assessment. Accordingly, no segment analysis 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.

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

For the six months ended 30 June 2014

### 6. FINANCE COSTS

|  | Six months ended 30 June        |                                 |
|--|---------------------------------|---------------------------------|
|  | 2014<br>HK\$'000<br>(Unaudited) | 2013<br>HK\$'000<br>(Unaudited) |
| Interest on:   |                                 |                                 |
| – Convertible bonds                                  | 22,035                          | –                               |
| – Bank borrowings wholly repayable within five years | 2,621                           | 8,081                           |
| – Other loans wholly repayable within five years     | 1,669                           | 1,114                           |
| – Other loans wholly repayable after five years      | –                               | 186                             |
| – Loan from an associate                             | 79                              | 73                              |
|  | <b>26,404</b>                   | 9,454                           |

### 7. INCOME TAX EXPENSE

|                                   | Six months ended 30 June        |                                 |
|-----------------------------------|---------------------------------|---------------------------------|
|                                   | 2014<br>HK\$'000<br>(Unaudited) | 2013<br>HK\$'000<br>(Unaudited) |
| PRC Enterprise Income Tax ("EIT") |                                 |                                 |
| – current period                  | 10,165                          | 17,955                          |
| Deferred tax                      | 1,150                           | 3,541                           |
|                                   | <b>11,315</b>                   | 21,496                          |

Hong Kong Profits Tax has not been provided for in the condensed consolidated interim financial information for the six months ended 30 June 2014 and 2013 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 three 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.

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

For the six months ended 30 June 2014

### 8. PROFIT FOR THE PERIOD

|  | Six months ended 30 June        |                                 |
|--|---------------------------------|---------------------------------|
|  | 2014<br>HK\$'000<br>(Unaudited) | 2013<br>HK\$'000<br>(Unaudited) |
| Profit for the period has been arrived at after charging (crediting):    |                                 |                                 |
| Staff costs including directors' emoluments                              |                                 |                                 |
| – salaries, wages and other benefits                                     | 39,657                          | 27,430                          |
| – retirement benefits scheme contributions                               | 7,779                           | 3,012                           |
| Total staff costs  | 47,436                          | 30,442                          |
| Amortisation of prepaid lease payments                                   | 645                             | 792                             |
| Amortisation of concession intangible assets (included in cost of sales) | 15,414                          | 11,961                          |
| Amortisation of other intangible assets (included in cost of sales)      | 1,750                           | –                               |
| Depreciation of property, plant and equipment                            | 5,760                           | 3,923                           |
| Loss on disposal of property, plant and equipment                        | 281                             | 113                             |
| Bank interest income   | (429)                           | (469)                           |
| Net exchange (gain) loss   | (836)                           | 1                               |

### 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\$60,476,000 (2013: HK\$36,342,000) and on the weighted average number of 1,133,635,633 (2013: 1,110,331,766) ordinary shares during the period.

Diluted earnings per share were the same as the basic earnings per share as there were no dilutive potential ordinary shares outstanding for the six months ended 30 June 2014 and 2013.

The computation of diluted earnings per share does not assume the conversion of the Company's outstanding convertible bonds as conversion price of those convertible bonds is higher than the average market price of shares for the six months ended 30 June 2014.



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

For the six months ended 30 June 2014

### 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 2014, the Group acquired property, plant and equipment amounted to approximately HK\$9,493,000 (six months ended 30 June 2013: approximately HK\$10,428,000) and disposed of property, plant and equipment with carrying amount of approximately HK\$415,000 (six months ended 30 June 2013: approximately HK\$432,000).

### 12. TRADE AND OTHER RECEIVABLES

|                                  | At 30 June<br>2014<br>HK\$'000<br>(Unaudited) | At 31 December<br>2013<br>HK\$'000<br>(Audited) |
|----------------------------------|---|---|
| Trade receivables                | 43,187  | 40,790  |
| Less: impairment loss recognised | (7,532)                                       | (7,604)   |
|                                  | <b>35,655</b>                                 | 33,186  |
| Other receivables                | 57,432  | 38,273  |
| Less: impairment loss recognised | (9,004)                                       | (9,090)   |
|                                  | <b>48,428</b>                                 | 29,183  |
| Loan receivables                 | 54,844  | 81,844  |
| Less: impairment loss recognised | (54,844)                                      | (54,844)  |
|                                  | –   | 27,000  |
| Deposits and prepayments         | 56,208  | 18,995  |
|                                  | <b>140,291</b>                                | 108,364   |

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

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

For the six months ended 30 June 2014

### 12. TRADE AND OTHER RECEIVABLES *(Continued)*

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

|                 | <b>At 30 June<br/>2014<br/>HK\$'000<br/>(Unaudited)</b> | At 31 December<br>2013<br>HK\$'000<br>(Audited) |
|-----------------|---|---|
| Within 90 days  | 24,062  | 22,512  |
| 91 to 180 days  | 4,838   | 6,483   |
| 181 to 365 days | 6,108   | 3,890   |
| Over 1 year     | 647   | 301   |
|                 | <b>35,655</b>   | 33,186  |

### 13. TRADE AND OTHER PAYABLES

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

|                   | <b>At 30 June<br/>2014<br/>HK\$'000<br/>(Unaudited)</b> | At 31 December<br>2013<br>HK\$'000<br>(Audited) |
|-------------------|---|---|
| Within 90 days    | 14,464  | 14,358  |
| 91 to 180 days    | 1,354   | 758   |
| 181 to 365 days   | 2,368   | 2,213   |
| Over 1 year       | 5,628   | 4,973   |
|                   | <b>23,814</b>   | 22,302  |
| Other payables    | 140,718   | 119,144   |
| Interest payables | 16,839  | 16,013  |
|                   | <b>181,371</b>  | 157,459   |

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

For the six months ended 30 June 2014

### 14. CONVERTIBLE BONDS

On 16 October 2013, the Company and the Subscriber (Prosper Talent Limited) entered into the Subscription Agreement in respect of the issue of and subscription for the Convertible Bonds to be issued in two tranches in an aggregate principal amount of HK\$200 million in cash, comprising of the Series A Bonds and the Series B Bonds.

Subscription of the Series A Bonds was completed on 30 October 2013, and subscription of the Series B Bonds was completed on 14 January 2014.

The movement of the liability and derivatives component of the Series A Bonds and Series B Bonds is set out below:

|  | Series A Bonds<br><i>HK\$'000</i> | Series B Bonds<br><i>HK\$'000</i> | Total<br><i>HK\$'000</i> |
|--|-----------------------------------|-----------------------------------|--------------------------|
| <b>Liability</b>   |                                   |                                   |                          |
| Issuance   | 89,915                            | –                                 | 89,915                   |
| Imputed interest expenses                                  | 3,481                             | –                                 | 3,481                    |
| Coupon interest paid in advance                            | (3,750)                           | –                                 | (3,750)                  |
| At 31 December 2013  | 89,646                            | –                                 | 89,646                   |
| Issuance   | –                                 | 86,178                            | 86,178                   |
| Imputed interest expenses                                  | 10,809                            | 11,226                            | 22,035                   |
| Coupon interest paid in advance                            | (3,750)                           | (3,750)                           | (7,500)                  |
| At 30 June 2014  | 96,705                            | 93,654                            | 190,359                  |
| <b>Derivatives component embedded in convertible bonds</b> |                                   |                                   |                          |
| Issuance   | 10,085                            | –                                 | 10,085                   |
| Change in fair value                                       | 7,621                             | –                                 | 7,621                    |
| At 31 December 2013  | 17,706                            | –                                 | 17,706                   |
| Issuance   | –                                 | 13,822                            | 13,822                   |
| Change in fair value                                       | (15,120)                          | (9,270)                           | (24,390)                 |
| At 30 June 2014  | 2,586                             | 4,552                             | 7,138                    |
|  | 99,291                            | 98,206                            | 197,497                  |

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

For the six months ended 30 June 2014

### 15. SHARE CAPITAL

|   | At 30 June 2014<br>(Unaudited) |                    | At 31 December 2013<br>(Audited) |                    |
|---|--------------------------------|--------------------|----------------------------------|--------------------|
|   | Number of<br>shares            | Amount<br>HK\$'000 | Number<br>of shares              | Amount<br>HK\$'000 |
| Authorised Capital:                                   |                                |                    |                                  |                    |
| <b>Ordinary shares of HK\$0.50 each</b>               |                                |                    |                                  |                    |
| At the beginning and the end of the period/year       | 4,000,000,000                  | 2,000,000          | 4,000,000,000                    | 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\$0.5 each</b>                |                                |                    |                                  |                    |
| At the beginning of the period/year                   | 1,110,331,766                  | 555,166            | 1,110,331,766                    | 555,166            |
| Issue of shares upon placing ( <i>Note 1</i> )        | 222,000,000                    | 111,000            | –                                | –                  |
| At the end of the period/year                         | 1,332,331,766                  | 666,166            | 1,110,331,766                    | 555,166            |

*Note 1:* On 30 May 2014, the Company entered into the placing agreement with placing agent, pursuant to which, the Company had through placing agent to place out 222,000,000 new ordinary shares at placing price of HK\$1 each to independent third parties. The transaction was completed on 12 June 2014. The net proceeds from the Placing was approximately HK\$216 million which was intended to be used for (i) as to approximately 50% for repayment of convertible bonds; (ii) as to approximately 40% for future business development; and (iii) as to approximately 10% for general working capital of the Group.

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

For the six months ended 30 June 2014

### 16. CAPITAL COMMITMENT

|  | At 30 June<br>2014<br>HK\$'000<br>(Unaudited) | At 31 December<br>2013<br>HK\$'000<br>(Audited) |
|--|---|---|
| Contracted but not provided for:   |   |   |
| Acquisition of concession intangible assets and property,<br>plant and equipment | 96,077  | 83,768  |
| Acquisition of prepaid lease payments  | –   | 52,784  |
| Acquisition of intangible assets   | 16,377  | –   |
| Acquisition of Subsidiaries  | 52,831  | –   |
|  | <b>165,285</b>                                | 136,552   |

### 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:

|                                      | At 30 June<br>2014<br>HK\$'000<br>(Unaudited) | At 31 December<br>2013<br>HK\$'000<br>(Audited) |
|--------------------------------------|---|---|
| Within one year                      | 2,773   | 1,663   |
| After one year but within five years | 2,646   | 611   |
| After five years                     | 237   | 267   |
|                                      | <b>5,656</b>                                  | 2,541   |

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

For the six months ended 30 June 2014

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

On 26 July 2014, Greenspring (Nanjing) entered into a outsource procurement contract for landfill gas detoxification, deodorization and resources recycling project in the Qingshan Municipal Solid Waste Landfill Site in Qingyuan with the Solid Waste Management Centre of Qingyuan City\* (清遠市固體廢棄物管理中心) (“Qingyuan Management Centre”). Qingyuan Management Centre has awarded Greenspring (Nanjing) the exclusive right for a term of 10 years until July 2024 for the collection and exclusive and comprehensive utilization of landfill gas in Qingshan Municipal Solid Waste Landfill Site\* (青山城市生活垃圾衛生填埋場) (“Qingshan Landfill Site”) for power generation, compression and purification, production of automobile gas and residential natural gas or for other purposes at nil consideration. Greenspring (Nanjing) shall carry out construction works and production in the Qingshan Landfill Site, which could process approximately 255,500 tons of household waste each year with gas extraction capacity from household waste of 10.40 million m<sup>3</sup> each year.

### 19. LITIGATIONS

#### i. Technostore Limited (in liquidation), 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 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. 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. On 30 January 2014, advised by the Liquidator that the High Court would approve the application of releasing Liquidator and dissolution of Technostore within the next three months. On 25 July 2014, High Court issued the court order to confirm that Technostore was dissolved and the Liquidator was released. 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.

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

For the six months ended 30 June 2014

## 19. LITIGATIONS *(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 (the "Remaining Loan Receivables") 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 (the "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 (the "Final Judgement"). Top Vision has not performed the repayment obligation under the judgment issued by the High Court. The Company cannot locate any asset of Top Vision in Hong Kong. As advised by the legal counsel, without information on the assets of Top Vision in Hong Kong, the Company cannot enforce the Final Judgment against Top Vision. As the major assets owned by the subsidiaries of Top Vision are located in Guangdong Province, the PRC, the Company had undertaken recovery actions including but not limited to legal actions taken in PRC to collect the Remaining Loan Receivables. As advised by the PRC lawyer, the Final Judgment relating to the settlement of HK\$35.40 million by Top Vision to Swift Surplus could not be executed in Mainland China because the Repayment Agreements stated that "Parties of the Repayment Agreements irrevocably consent that the Courts of the HKSAR will have the non-exclusive jurisdiction to solve any disputes which may be caused or are caused by the Repayment Agreements". The PRC lawyer considered that the non-exclusive jurisdiction stated in the Repayment Agreement does not comply with PRC law. Therefore, the PRC lawyer further reckoned that the Final Judgment will be neither recognized nor executed by Zhaoqing Intermediate People's Court. In light of this, the possibility of recovering of Outstanding Balance was thin and remote, thus a further impairment loss of HK\$28 million had been provided in 2013. Subsequent to the interim period, the Company has instructed its legal counsel to undertake the arbitration in Hong Kong to chase back the Partial Payment of the Remaining Loan Receivables.

For the financial year ended 31 December 2009, 31 December 2011 and 31 December 2013, impairment loss of approximately HK\$44.32 million regarding the Loan Receivables had been provided. The Board has assessed the possibility of recovery of Partial Payment of the Remaining Loan Receivables and believes that the Company would collect back the loans through taken the legal actions against Top Vision, thus no further impairment loss has been provided.

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

For the six months ended 30 June 2014

### 19. LITIGATIONS *(Continued)*

#### 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 trial, arbitration tribunal ruled an award on 12 June 2012, adjudging that:

- (1) Yunnan Chaoyue Gas shall pay Guangzhou Hyde the principal of RMB8.56 million and overdue interests thereon; and
- (2) The arbitration fees shall be borne by Yunnan Chaoyue Gas.

The above award confirmed the amount to be paid by Yunnan Chaoyue Gas to Guangzhou Hyde shall 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 (the “Kunming Court”) for civil enforcement on 21 July 2012, and Kunming Court has accepted such application. On 13 May 2013, Yunnan Chaoyue Gas provided loan repayment plan (the “Repayment Plan”) to Guangzhou Hyde. Owing to without information of the assets owned by Yunnan Chaoyue Gas and given the Repayment Plan, Kunming Court has stopped to execute the civil enforcement (“Civil Enforcement”). Notwithstanding, the Company has reserved its right to petition the Kunming Court to resume the enforcement proceeding once locating any assets owned by Yunnan Chaoyue Gas in PRC. Up to the report date, Yunnan Chaoyue Gas has not performed the repayment obligation according to the Repayment Plan. On 25 July 2014, Guangzhou Hyde has submitted the application to Kunming Court to resume the execution of the Civil Enforcement. For the financial year ended 31 December 2011, impairment loss of approximately HK\$10 million regarding the Deposit had been provided. The aforesaid litigation is unlikely to have any significant material adverse financial impact on the Group.

Save as disclosed above, the Company is not aware of any other significant proceedings instituted against the Company.



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

For the six months ended 30 June 2014

### 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.

#### (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        |                                 |
|--------------------------|---------------------------------|---------------------------------|
|                          | 2014<br>HK\$'000<br>(Unaudited) | 2013<br>HK\$'000<br>(Unaudited) |
| Short-term benefits      | 3,661                           | 2,133                           |
| Post-employment benefits | 39                              | 36                              |
|                          | 3,700                           | 2,169                           |

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        |                                 |
|--|---------------------------------|---------------------------------|
|  | 2014<br>HK\$'000<br>(Unaudited) | 2013<br>HK\$'000<br>(Unaudited) |
| Purchase of vehicle from related party | –                               | 1,393                           |
|  | –                               | 1,393                           |

On 17 April 2013, an indirect wholly-owned subsidiary of the Company acquired a motor vehicle from the spouse of Mr. Wang De Yin, the Company's chairman and Chief Executive Officer for the Group's daily use.

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL PERFORMANCE

### RESULTS

#### Financial Results

For the six month ended 30 June 2014, the Group recorded a consolidated net profit of HK\$61.78 million. In comparison with the consolidated net profit of HK\$48.10 million in the corresponding period of 2013, there was an increase of HK\$13.67 million. The board of directors (“**Board**”) considered that the increase in consolidated net profit was mainly attributable to (i) the positive change in fair value of financial assets of HK\$55.52 million, (ii) the realized gain on disposal of available-for-sale investment of HK\$21.77 million, (iii) the gain arising from the change in fair value of derivative financial instruments of HK\$24.39 million and (iv) the decrease of income tax by HK\$10.18 million. The Board also recognized that these positive contributions were eroded by the following factors (a) absence of income relating to waiver of loan interest and interest payable of HK\$59.75 million which was recognized in 2013, (b) the increase of selling and distribution and administrative expenses collectively by HK\$23.51 million and (c) the increase of finance costs by HK\$16.95 million due to imputed interest provided.

#### Revenue and Gross Profit

The revenue and gross profit for the period ended 30 June 2014 were HK\$204.24 million and HK\$72.74 million respectively. These represented a growth of 20.59 % in revenue and 1.57% in gross profit in comparison with the corresponding period. The gross profit had only a slight increase of HK\$1.12 million. This was due to the major source of gross profit contributing from the construction services for water supply was reduced by 33.35% even though the biogas power generation business had positive contribution to the Group. The main contributors were Yichun Water Industry Co. Ltd. (“**Yichun Water**”) and Yingtan Water Supply Co. Ltd. (“**Yingtan Water**”), which collectively accounted for 55.89% of the revenue and 63.14% of the gross profit. The summary of revenue and gross profit is as follows:

|                                  | Revenue       |              |        |       | Gross Profit |              |        |       |
|----------------------------------|---------------|--------------|--------|-------|--------------|--------------|--------|-------|
|                                  | 2014          |              | 2013   |       | 2014         |              | 2013   |       |
|                                  | HK\$'M        | %            | HK\$'M | %     | HK\$'M       | %            | HK\$'M | %     |
| Water supply business            | <b>74.65</b>  | <b>36.55</b> | 59.81  | 35.31 | <b>29.06</b> | <b>39.95</b> | 20.34  | 28.40 |
| Sewage treatment business        | <b>23.98</b>  | <b>11.74</b> | 22.85  | 13.49 | <b>11.10</b> | <b>15.26</b> | 10.29  | 14.37 |
| Construction services business   | <b>95.42</b>  | <b>46.72</b> | 86.70  | 51.20 | <b>27.32</b> | <b>37.56</b> | 40.99  | 57.23 |
| Biogas power generation business | <b>10.19</b>  | <b>4.99</b>  | –      | –     | <b>5.26</b>  | <b>7.23</b>  | –      | –     |
| Total                            | <b>204.24</b> | <b>100</b>   | 169.36 | 100   | <b>72.74</b> | <b>100</b>   | 71.62  | 100   |

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### FINANCIAL PERFORMANCE *(Continued)*

#### RESULTS *(Continued)*

##### **Water supply business**

The water supply business are supported by 6 water supply plants located in various provincial cities across China including Jiangxi, Anhui, Shandong and Hainan. The daily aggregate water supply capacity was approximately 1.94 million tonne (including the capacity of 1.50 million tonne of an associated company) generating a revenue of HK\$74.65 million, representing 36.55% of the Group's total revenue. The gross profit ratio was 38.93% (2013: 34.00%). The increase in revenue and gross profit by HK\$14.84 million and HK\$8.72 million respectively were due to the increase of water tariffs in Hainan Danzhou Water Company Limited\* (海南儋州自來水有限公司) and Yingtan Water. The rates for the water supply ranged from HK\$1.60 to HK\$2.26 per tonne.

##### **Sewage treatment business**

The sewage treatment business are supported by 3 sewage treatment plants located in the Provinces of Jiangxi, Guangdong and Shandong. The daily aggregate sewage disposal capacity was approximately 130,000 tonne generating a revenue of HK\$23.98 million, representing 11.74% of the Group's total revenue. The gross profit ratio was 46.29% (2013: 45.03%). The rates for sewage treatment ranged from HK\$0.69 to HK\$1.64 per tonne. Subsequent to the interim period, Yichun Fangke Sewage Treatment Company Limited\* (“宜春市方科污水處理有限公司”), an indirect non-wholly-owned subsidiary of the Company, was approved by the relevant government authority to increase sewage treatment fee.

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

Construction services included water meter installation, and pipeline construction and repair. These were the Group's major sources of revenue contributing HK\$95.42 million, representing 46.72% of the Group's total revenue. The gross profit ratio was 28.63% (2013: 47.28%). The drop in gross profit by HK\$13.67 million was due to the decrease of construction work in Yichun Water.

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### FINANCIAL PERFORMANCE *(Continued)*

#### RESULTS *(Continued)*

##### Biogas power generation business

In recent years, the green economy and the associated environmental protection industry have become the core priorities for China's future economic reforms and long-term development. The Group has formed a new business expansion strategy in 2013 under the principle that the environmental protection industry in China will continue to thrive on these evolving national priorities. It is expected that the demand for environmental friendly alternative energy across the country will continue to grow which will provide huge market for the Group to capture such development opportunities. The Group has been actively exploring in the areas of renewable energy business and has stressed that this business will be the next major investment. In 2013, the Group successfully acquired Nanjing Feng Shang New Technology Limited Liability Company\* (“**Nanjing Feng Shang**”) 南京豐尚新能源科技有限公司 which is mainly engaged in the generation of biogas power from domestic waste, and the exploitation, generation and sales of renewable energy. The facilities of Nanjing Feng Shang are designed to process approximately 0.58 million tonne of household waste annually. The existing biogas extraction from the household waste in Nanjing Jiaozishan Landfill Site is approximately 16 million m<sup>3</sup> annually, which in turn can generate approximately 27 million kilowatt of on-grid electricity annually. The average electricity rate is RMB0.64 per kilowatt. The acquisition of Nanjing Feng Shang was completed on 31 October 2013. The revenue from this new business was HK\$10.19 million from selling electricity to a provincial power grid company and receiving tariff adjustment from a relevant government authority. The gross profit ratio was 51.62% (2013: Nil). In 2014, the Group successfully secured five biogas power generation projects including (i) the Shenzhen Xiaping Landfill Site Project, (ii) Changsha Heimifeng Landfill Site Project, (iii) Zhuzhou Biogas Project, (iv) Liuyang Biogas Project and (v) Qingshan Landfill Site Project. These new projects add a total designed annual household waste processing capacity of 3.92 million tonne and could extract biogas from the household waste of 106.40 million m<sup>3</sup> annually. Upon the commencement of commercial operation, the new projects would bring new income stream to the Group.

##### Other Operating Income

In the first half of 2014, other operating income was HK\$6.03 million (2013: HK\$4.04 million). The income included mainly interest income of HK\$0.43 million, penalty income of HK\$0.21 million charged on customers for late payment, disinfection handling fees of HK\$0.90 million, rental income of HK\$0.32 million for the provision of accommodation to staffs, tax refund of HK\$1.46 million and the guaranteed profit of HK\$0.30 million compensated by the respective governments in the PRC for the associated water plant.

##### Change in fair value of financial assets at fair value through profit or loss

The Company has invested HK\$25 million in an unlisted US dollar based investment fund (“**Fund**”) in May 2014. The Fund primarily invests in listed securities in Asian market. The fair value of the financial assets is based on net asset value (“**NAV**”) of the Fund calculated on the last day of each calendar month and reported by Fund manager accordingly. In the first half of 2014, the positive change in fair value on unlisted financial assets of HK\$55.52 million (2013: Nil) was solely the gain of the NAV of the Fund. The Fund is held for trading purpose and classified as current asset of the Group.

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### FINANCIAL PERFORMANCE *(Continued)*

#### RESULTS *(Continued)*

##### Gain on disposal of available-for-sale investments

Included in the disposal of available-for-sale investments were the equity investment in three listed equity securities in Hong Kong. During the interim period, the disposal of these listed securities were on-market transactions through The Stock Exchange of Hong Kong Limited ("**Stock Exchange**") and recorded a gain of HK\$21.77 million (2013: HK\$0.80 million).

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

In the first half of 2014, selling and distribution costs together with administrative expenses were collectively increased by HK\$23.51 million to HK\$75.10 million (2013: HK\$51.61 million). The increase was mainly due to increment of staff salaries and related benefits and repair and maintenance. These expenses mainly consisted of staff cost of HK\$33.57 million, legal and professional fee of HK\$1.71 million, repair and maintenance of HK\$3.98 million and depreciation of HK\$4.05 million.

##### Finance costs

In the first half of 2014, the finance costs of the Group were HK\$26.40 million, representing a increase of HK\$16.95 million from HK\$9.45 million for the same period of last year. The finance costs were included imputed interest of HK\$22.04 million and the interest of HK\$4.37 million on loans. The increase was mainly due to the imputed interest charged on the convertible bonds ("**CB**") issued by the Company in 2013 and 2014. The imputed interest was a result of the accounting treatment and it did not affect the actual cashflow of the Group.

##### Share of results from associates

The Group has two associated companies, which held 35% equity interests in Jinan Hongquan Water Production Co. Ltd ("**Jinan Hongquan**") and 10% equity interests in Yu Jiang Hui Min Small Sum Loan Company Limited\* ("**Yu Jiang Hui Min**"). In the first half of 2014, the Group shared the loss results of HK\$5.85 million (2013: HK\$6.67 million) which was mainly from the loss of HK\$6.44 million from Jinan Hongquan and the profit of HK\$0.59 million from Yu Jiang Hui Min.

##### Income tax

In the first half of 2014, the income tax had dropped substantially by HK\$10.18 million to HK\$11.32 million (2013: HK\$21.50 million). Absence of income relating to wavier of loan interest and interest payable of HK\$59.75 million which was recognized in 2013 was leading the income tax to reduce. The PRC standard income tax rate of 25% remains stable in 2014.

##### Profit attributable to Owners of the Company

For the period ended 30 June 2014, profit attributable to owners of the Company was approximately HK\$60.48 million (2013: HK\$36.34 million.), an increase of HK\$24.13 million due to the positive change in fair value of financial assets and the realized gain on disposal of available-for-sale investment.

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2014, the Group recorded cash and bank balance including cash held at financial institutions of HK\$344.86 million (compared with HK\$250.56 million on 31 December 2013). The increase was due to placing of new shares and issuance of Series B Bonds. 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. The cash and bank balance were denominated in Hong Kong dollars and Renminbi.

The net current assets for the Group in 2014 were HK\$125.75 million (2013: net current liabilities of HK\$39.23 million). The improvement of current liquidity position of the Group was mainly the funds raising from placing of new shares. The current ratio (current assets over current liabilities) is 1.21 times (2013: 0.91 times) as at 30 June 2014.

Net asset value was HK\$1,114.25 million (2013: HK\$826.50 million). Net asset per share was HK\$0.84 (2013: HK\$0.74), increased by 13.51% from the end of 2013.

The Group's consolidated non-current assets increased by HK\$124.01 million to HK\$1,200.92 million (compared with HK\$1,076.90 million on 31 December 2013). The increase was mainly attributable to (i) investment in equity securities; (ii) deposits paid for acquisition of Shenzhen City Li Sai Industrial Development Limited\* ("**Shenzhen Li Sai**") 深圳市利賽實業發展有限公司 and Yingtan City Run De Property Company Limited\* (鷹潭市潤德置業有限公司).

Total liabilities of the Group as at 30 June 2014 were HK\$803.65 million (compared with HK\$644.01 million on 31 December 2013). The increase was mainly due to the issuance of the Series B Bonds in January 2014. Total liabilities mainly comprised of the bank and other borrowings of HK\$185.31 million (2013: HK\$187.17 million), government grants of HK\$93.74 million (2013: HK\$95.98 million) and trade and other payable of HK\$181.37 million (2013: HK\$157.46 million). They were mainly denominated in Renminbi and the interest rates of which were fixed.

As at 30 June 2014, the Group's total bank and other borrowings were HK\$185.31 million (2013: HK\$187.17 million) which was at similar level comparing with the year 2013. For the maturity profile, refer to the table below:

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES *(Continued)*

#### Debt Analysis

|  | 30 June 2014   |              | 31 December 2013 |       |
|--|----------------|--------------|------------------|-------|
|  | HK\$'000       | %            | HK\$'000         | %     |
| <b>Classified by maturity</b>          |                |              |                  |       |
| <b>– repayable within one year</b>     |                |              |                  |       |
| Bank borrowings                        | 42,495         | 22.93        | 42,116           | 22.50 |
| Other loans                            | 61,115         | 32.98        | 65,722           | 35.11 |
|  | <b>103,610</b> | <b>55.91</b> | 107,838          | 57.61 |
| <b>Classified by maturity</b>          |                |              |                  |       |
| <b>– repayable more than one year</b>  |                |              |                  |       |
| Bank borrowings                        | 27,715         | 14.96        | 26,710           | 14.27 |
| Other loans                            | 53,983         | 29.13        | 52,619           | 28.12 |
|  | <b>81,698</b>  | <b>44.09</b> | 79,329           | 42.39 |
| <b>Total bank and other borrowings</b> | <b>185,308</b> | <b>100</b>   | 187,167          | 100   |
| <b>Classified by type of loans</b>     |                |              |                  |       |
| Secured                                | 70,210         | 37.89        | 75,186           | 40.17 |
| Unsecured                              | 115,098        | 62.11        | 111,981          | 59.83 |
|  | <b>185,308</b> | <b>100</b>   | 187,167          | 100   |
| <b>Classified by type of interest</b>  |                |              |                  |       |
| Fixed rate                             | 66,076         | 35.66        | 77,472           | 41.39 |
| Variable-rate                          | 70,026         | 37.79        | 61,898           | 33.07 |
| Interest free rate                     | 49,206         | 26.55        | 47,797           | 25.54 |
|  | <b>185,308</b> | <b>100</b>   | 187,167          | 100   |

The Group's gearing ratio as at 30 June 2014 was 41.90% (2013: 43.80%). The ratio was calculated by dividing total liabilities of HK\$803.65 million over total assets of the Group of HK\$1,917.89 million.

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### TRADE AND OTHER RECEIVABLES

As at 30 June 2014, the Group's trade and other receivables were approximately HK\$140.29 million (31 December 2013: HK\$108.36 million). These comprised of: (i) trade receivables of HK\$35.66 million, (ii) other receivables of HK\$48.43 million, (iii) deposits and prepayments of HK\$56.20 million. During the period, the trade receivables slight increased by HK\$2.47 million to HK\$35.66 million (31 December 2013: HK\$33.19 million). The average turnover period of the trade receivables as at 30 June 2014 were 77 days (2013: 25 days). The Group allows a credit period of 30 to 180 days to its customers. Included in other receivables were mainly (i) the construction fee of HK\$18 million paid on behalf of the respective government in PRC to the sub-contractor; and (ii) loan of HK\$9.40 million advanced to Shenzhen Li Sai for acquiring plant facilities. These loan receivables were unsecured, interest-free and repayment by demand. These balances are still outstanding subsequent to the interim period. The deposits and prepayments increased by HK\$37.21 million to HK\$56.20 million (2013: HK\$19.00 million), which was mainly the deposit of HK\$43 million paid for procuring wireless communication technology relating to sewage treatment monitoring control system. Subsequent to the interim period, the related procurement contract was terminated and the deposit of HK\$43 million was refunded by the relevant supplier.

### TRADE AND OTHER PAYABLES

As at 30 June 2014, the Group's trade and other payables were approximately HK\$181.37 million (31 December 2013: HK\$157.46 million). The credit terms of trade payables vary according to the terms agreed with different suppliers.



## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### CAPITAL RAISING AND USE OF PROCEEDS

- I. On 16 October 2013, the Company, Prosper Talent Limited and the Subscriber entered into the Subscription Agreement in respect of the issue of and subscription for the CB to issue in two tranches in an aggregate principal amount of HK\$200 million in cash, comprising of the Series A Bonds and the Series B Bonds. Assuming full conversion of the CB at the initial conversion price of HK\$1.65 per share, a total of 121,212,120 shares will be allotted and issued under the general mandate. Following the completion of placing on 12 June 2014, the conversion price of the CB has been adjusted from the initial conversion price of HK\$1.65 per share ("**Initial Conversion Price**") to HK\$1.57 per share ("**Adjusted Conversion Price**") with effective 12 June 2014. The maximum number of shares issuable by the Company upon full conversion of the CB at the Adjusted Conversion Price will be 127,388,534 share.

The purpose of use of proceed is for investment in, establishment and operation of water supply companies, sewage treatment companies and solid waste treatment companies only. Series A Bonds and Series B Bonds were issued on 30 October 2013 and 14 January 2014 respectively. The maturity date of CB will be expired of one year from the date of issue of the CB. Thus, the maturity falling for Series A Bonds and Series B Bonds will be due on 30 October 2014 and 14 January 2015 respectively, bears annual interest at 7.5% and, on maturity, the bond will be redeemed at an aggregate price of 100% of the outstanding principal amount plus an interest of 12% per annum, less the interest amount already paid on the CB. The net proceeds of approximately HK\$197 million have been fully utilized by the Company as to (i) approximately HK\$46.80 million for the establishment of a wholly-owned investment company named Greenspring (Nanjing) Recycling resources Investment Co. Ltd. ("**Greenspring (Nanjing)**") in Nanjing to acquire waste power generation business; (ii) approximately HK\$19.80 million for the increase in the registered share capital of a wholly-owned subsidiary of the Company in Shenzhen which engages in the business of water supply and sewage treatment; (iii) approximately HK\$46.80 million for the establishment of a wholly-owned investment company named Swan (Huizhou) Investment Company Limited in Huizhou to acquire renewable energy businesses; (iv) approximately HK\$45.23 million for the first and second payments to acquire 88% equity interest in Shenzhen Li Sai as announced by the Company on 23 January 2014; (v) approximately HK\$38.37 million for the formation of JV Company in Changsha and the first payment for the acquisition of Hunan Huiming Environmental Technology Limited\* (the "**Huiming Technology**") (湖南惠明環境科技有限公司) as announced by the Company on 21 March 2014. Up to the report date, none of the CB is converted into shares by the Subscriber.

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### CAPITAL RAISING AND USE OF PROCEEDS *(Continued)*

- ii. On 30 May 2014, the Company entered into the placing agreement with placing agent, pursuant to which, the Company had through placing agent to place out 222,000,000 new ordinary shares at placing price of HK\$1 each to independent third parties. The transaction was completed on 12 June 2014. The net proceeds from the Placing was approximately HK\$216 million which was intended to be used for (i) as to approximately 50% for repayment of CB; (ii) as to approximately 40% for future business development; and (iii) as to approximately 10% for general working capital of the Group. The net proceeds have been utilized by the Group as to (i) approximately HK\$50 million for the increase in the registered share capital of Greenspring (Nanjing); and approximately HK\$24.50 million for general working capital of the Group including office operating expenses and repayment of CB interest. The Company intends to use the unutilized net proceeds of HK\$141.50 million as to (i) repayment of Series A bonds; and (ii) payment of remaining balance for acquisition of Shenzhen Li Sai. The unutilized net proceeds are held in bank for future use as intended.

Save as disclosed above, the Company has not conducted any equity fund raising activities during the interim period.

During the first half of 2014, the Group incurred capital expenditures amounting to HK\$25.31 million (2013: HK\$102.37 million) for acquisition of concession intangible assets.

### MAJOR EVENTS DURING THE PERIOD UNDER REVIEW

#### Acquisition of Shenzhen City Li Sai Industrial Development Limited

On 23 January 2014, the Greenspring (Nanjing), an indirect wholly-owned subsidiary of the Company entered into the Sale and Purchase Agreement with Mr. Huang Han Jian\* (黃漢健) and Ms. Xiao Ying\* (肖瑛) (collectively known as “**Vendors**”) for the purpose of acquiring approximately 88% of the issued share capital of the Shenzhen Li Sai at an aggregate consideration of RMB59,840,000. Shenzhen Li Sai obtained the exclusive operation rights for the project of conversion of the Shenzhen City Xiaping Solid Waste Landfill Site\* 深圳市下坪固體廢棄物填埋場 (the “**Shenzhen Xiaping Landfill Site**”) into compressed natural gas in the Shenzhen Xiaping Landfill Site for a term of seventeen (17) years until 1 April 2030. In addition, Shenzhen Li Sai has also entered into a purchase and sale agreement of gas in related to the conversion of the landfill gas into compressed natural gas with Shenzhen Gas Corporation Ltd. It is expected that the projects will be commenced in mid-2014 and the estimated annual production output of the landfill biogas is 40 million m<sup>3</sup>. Up to the report date, the Group has paid first and second payments of RMB35.90 million in total to Vendors. As the conditions for completion have not been fully fulfilled by the Vendors. The acquisition is not yet completed.

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

#### Acquisition of Yingtan City Run De Property Company Limited

On 19 March 2014, Jiangxi Shunda entered into the Sale and Purchase Agreement with Mr. Dong Gao Zhong\* (董高忠) and Mr. Chen Su Jiang\* (陳蘇江) (collectively known as “**Vendors**”) for the purpose of acquiring approximately 80% of the issued share capital of the Run De Property for an aggregate consideration of RMB30,000,000. The Run De Property is principally engaged in the property development and sales of the “Xinduhui” Real Estate Project\* (the “**Project**”) (“新都滙房地產項目”) in Guixi, the PRC. The development of the Project has been divided into two phases. The first phase of the Project has basically been completed and start to pre-sale and the second phase of the Project is currently under construction. Pre-selling of units in second phase is expected to be commenced in July 2014 and the construction of second phase is expected to be completed in December 2015. Up to the report date, the Group only paid the deposit due to the conditions for completion not yet fully fulfilled by the vendors. The acquisition is not yet completed.

#### Acquisition of Hunan Huiming Environmental Technology Limited

On 21 March 2014, Greenspring (Nanjing) entered into the Sale and Purchase Agreement with Hunan Huiming Environmental Energy Limited\* (the “**Hunan Huiming**”) (湖南惠明環保能源有限公司) and Mr. Huang Jian Xin\* (黃建新) (collectively known as “**Vendors**”) to acquire the entire issued share capital of Huiming Technology for a consideration of RMB15,000,000. Huiming Technology currently possesses of a waste landfill biogas resource utilization project in Zhuzhou (the “**Zhuzhou Biogas Project**”) and have the right for the exclusive use of all the biogas resources from the waste landfill sites in the city of Zhuzhou for a period until 1 October 2023. The estimated annual production output of the landfill biogas for the Zhuzhou Biogas Project is approximately 12 million m<sup>3</sup>. Up to the report date, the Group has paid first payment of RMB4.5 million to Vendors. As the conditions for completion have not been fully fulfilled by the Vendors. The acquisition is not yet completed.

#### Acquisition of Hunan Feng Ming Energy Technology Limited

On 21 March 2014, Greenspring entered into the Sale and Purchase Agreement with Hunan Huiming and Mr. Huang Jian Xin\* (黃建新) (collectively known as “**Vendors**”) to acquire the entire issued share capital of issued share capital of Hunan Feng Ming Energy Technology Limited\* (the “**Feng Ming Technology**”) (湖南豐銘能源科技有限公司) for an aggregate consideration of RMB3 million. Feng Ming Technology is principally engaged in (i) the development of eco-products; (ii) research and development of new energy sources. Feng Ming Technology currently possesses of a solid waste disposal sites biogas resource utilization project in Liuyang (the “**Liuyang Biogas Project**”). Feng Ming Technology has not yet commenced business. The estimated annual production output of landfill biogas for Liuyang Biogas Project is approximately 4 million m<sup>3</sup>. Up to the report date, the conditions for completion have not been fulfilled by the Vendors. The Group has not paid any consideration and the acquisition is not completed.

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

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

#### Formation of Joint Venture Company in Changsha, PRC

On 21 March 2014, Greenspring and Hunan Huiming entered into the JV Agreement pursuant to which Greenspring and Hunan Huiming have agreed to establish the JV Company which will be owned as to 91% by Greenspring and as to 9% by Hunan Huiming. Pursuant to the terms of the JV Agreement, the registered capital of the JV Company will be RMB30 million. Pursuant to the Changsha Contracts, Hunan Huiming has been granted the exclusive rights to operate and utilize the landfill gas collected from the solid wastes in the Changsha Heimifeng Garbage Landfill Site ("**Changsha Heimifeng Landfill Site**") for an exclusivity period of 35 years expiring on 10 October 2039 (the "**Expiration Date**"). Apart from the landfill gas resources which has been exploited for the operation of the Power Plant owned by Hunan Huiming, other landfill gas resources in the Changsha Heimifeng Landfill Site are not yet exploited and utilized (the "**Unexploited Landfill Gas Resources**"). The JV Company will be established for carrying out the purification process and exploitation of the Unexploited Landfill Gas Resources. Hunan Huiming agreed to transfer the exclusive rights relating to the operation and utilization the Unexploited Landfill Gas Resources to the JV Company at RMB23 million. The estimated annual production output of landfill biogas for Changsha Landfill Heimifeng Landfill Site is approximately 40 million m<sup>3</sup>. Up to the report date, the Group has paid its registered capital of RMB27.30 million and the JV Company namely Changsha Huiming Renewable Resources Technology Company Limited\* (長沙惠明再生資源科技有限公司) has been formed in April 2014.

#### MAJOR EVENT AFTER THE INTERIM PERIOD

On 26 July 2014, Greenspring (Nanjing) entered into a outsource procurement contract for landfill gas detoxification, deodorization and resources recycling project in the Qingshan Municipal Solid Waste Landfill Site in Qingyuan with the Solid Waste Management Centre of Qingyuan City\* (清遠市固體廢棄物管理中心) ("**Qingyuan Management Centre**"). Qingyuan Management Centre has awarded Greenspring (Nanjing) the exclusive right for a term of 10 years until July 2024 for the collection and exclusive and comprehensive utilization of landfill gas in Qingshan Municipal Solid Waste Landfill Site\* (青山城市生活垃圾衛生填埋場) ("**Qingshan Landfill Site**") for power generation, compression and purification, production of automobile gas and residential natural gas or for other purposes at nil consideration. Greenspring (Nanjing) shall carry out construction works and production in the Qingshan Landfill Site, which could process approximately 255,500 tons of household waste each year with gas extraction capacity from household waste of 10.40 million m<sup>3</sup> each year.

#### LITIGATIONS AND ARBITRATION

Please refer to Note 19 of the 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.

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### CAPITAL COMMITMENTS

As at 30 June 2014, the Group has the capital commitments contracted but not provided for acquisition of land approximately HK\$ nil million (2013: HK\$52.80 million), and the acquisition of concession intangible assets, plant and equipment approximately HK\$96.08 million (2013: HK\$83.80 million).

### CONTINGENT LIABILITIES

As at 30 June 2014, the Group did not have any significant contingent liabilities (2013: Nil).

### PLEDGE OF ASSETS

The Group's bank loans and other loans of HK\$70.21 million in total as at 30 June 2014 (2013: HK\$75.19 million) were secured by:

- i. Charges over property, plant and equipment in which their carrying amount was HK\$0.77 million (2013: HK\$1.03 million);
- ii. Charges over prepaid lease payments in relation to land use right in which their aggregate carrying amount was HK\$ nil (2013: HK\$ nil); 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\$ nil (2013: HK\$ nil).

### NO MATERIAL CHANGE

Save as disclosed above, during six month ended 30 June 2014, 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 2013.

### EMPLOYEES

As at 30 June 2014, excluding jointly controlled entities and associates, the Group had 1,168 (2013: 1,138) employees, of which 10 (2013: 9) are Hong Kong employees. During the interim period, total employee benefit expenses, including directors' emoluments and provident funds, was HK\$47.44 million (2013: HK\$30.44 million). The increase was mainly due to the fact that the number of the Group's employees has increased and their salary together with related benefits have 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 the Group's operating results, market conditions and individual performance. Remuneration packages are normally reviewed as an annual basis by the Remuneration Committee. During the year, 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.

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### PROSPECT

The new management formulated a 3-year development plan for the Company at the end of 2011:

**2012 Clean-up and rectification, laying a firm foundation, strengthening management, preserving profits.**

**2013 Expanding business and coverage, increasing efficiency, maintaining growth.**

**2014 Innovative development, economies of scale, enhancing the brand image, sustainability.**

In 2013, while maintaining a certain percentage growth in the water industry, the Company successfully entered the garbage resources integrated treatment sector.

Since merging with Nanjing Jiaozishan waste-to-power generation (南京轎子山垃圾發電), the Company successively conducted several mergers and acquisition projects, such as Shenzhen Li Sai (a company engaging in producing compressed natural gas with garbage landfill gas in Xiaping (“**Shenzhen Xiaping**”)), Changsha Heimifeng Garbage Landfill power generation and garbage landfill gas project (“**Changsha Heimifeng**”) and Zhuzhou waste-to-power generation (株洲垃圾發電) project. The Company has already set its foothold in the solid waste treatment sector.

As the two main projects of Shenzhen Xiaping and Changsha Heimifeng are large-scale natural gas projects with treatment capacity of 6,000 m<sup>3</sup> garbage landfill gas per hour, the construction cycle is long. It is expected that production will commence by December and actual revenue will be generated starting from next year. Therefore, the solid waste projects of the Company will not contribute significant profit this year.

Currently, we are actively expanding large-scale waste-to-power generation and gas production projects to expand our scale in this aspect. Landfill gas can generate power with zero emission. It is a renewable and recyclable resource beneficial to both the nation and its people and, therefore, receives great support from the nation. Following the launch of the domestic carbon emission trading, the revenue from waste-to-power generation segment would further increase. Accordingly, it is likely that the waste-to-power generation segment will become the new profit growth point of the Company.

In 2014, our mission is to integrate resources, focus on economies of scale, and strive to obtain the leading position in solid waste industry.

In 2014, we expect a growth in operating results of the Company as compared to 2013 and our important mission is to maintain sustainable development.

Traditional water industry is currently still our main business. Urban water supply and sewage treatment businesses remain to be our primary profit source. We will continue to expand our scale and conduct new project construction while paying special attention to management and profit margin enhancement at the same time.

Our key indicators include environmental protection, new energy, clean energy, renewable energy, recyclable energy and sustainable and so on, which are also our striving directions. The nation pays high attention to new energy and it is our development drive for the next stage. At present, all staffs of the Group are endeavour to vigorously promote solid waste project development to realize our environmental protection dream conscientiously of “endowing with clear water, blue sky, and vivid green land”.

## **MANAGEMENT DISCUSSION AND ANALYSIS** *(Continued)*

### **PROSPECT** *(Continued)*

Finally, on behalf of the Board and management, I hereby express my gratitude to our shareholders, investors and business partners for their all along trust and support, to the local governments for their support and help to our subsidiaries, and to our staff for their valuable contributions. I sincerely wish everyone will work and progress together with the Group in the future.

Our vision is to gain government confidence, citizen satisfaction, shareholders' recognition and staff contentment!

## SUPPLEMENTARY INFORMATION

### INTERIM DIVIDENDS

The Directors do not recommend the payment of a interim dividend for the six month ended 30 June 2014 (2013: Nil).

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

As at 30 June 2014, 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 1,332,331,766 Shares in issue as at 30 June 2014.

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

Save as disclosed above, as at 30 June 2014, 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 2014, 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 | 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 | 280,000,000 (L)<br><i>(Note 1)</i>    | –   | 21.02%  |
| Honghu Capital Co. Ltd.             | Beneficial owner                   | 280,000,000 (L)<br><i>(Note 1)</i>    | –   | 21.02%  |
| Central Huijin Investment Ltd.      | Interest of controlled corporation | –                                     | 127,388,534 (L)<br><i>(Note 2)</i>                        | 9.56%   |
| China Construction Bank Corporation | Interest of controlled corporation | –                                     | 127,388,534 (L)<br><i>(Note 2)</i>                        | 9.56%   |

*Note 1:* These shares are held by Honghu Capital Co. Ltd. (“**Honghu Capital**”) which Mr. Deng Jun Jie (“**Mr. Deng**”) is the beneficial owner. Mr. Deng is deemed to be interested in shares held by Honghu Capital by virtues of the SFO.

*Note 2:* These 127,388,534 underlying shares held under equity derivatives are those shares which would be issued upon exercise of the convertible right attached to the convertible bonds issued by the Company as disclosed in the announcement of the Company dated 16 October 2013. These underlying shares are held by Prosper Talent Limited (“**Prosper Talent**”) which is indirectly wholly-owned by China Construction Bank Corporation (“**CCBC**”). Central Huijin Investment Ltd. (“**Central Huijin**”) is interested in 57.26% of equity interest in CCBC. As the issued share capital of Prosper Talent is indirectly held by CCBC and Central Huijin, they are deemed to be interested in underlying shares by virtue of the SFO.

*Note 3:* The shareholding percentage in the Company is calculated on the basis of 1,332,331,766 shares in issue as at 30 June 2014.

*Note 4:* The letter “L” denotes a long position in Shares.

Save as disclosed above, as at 30 June 2014, the Company has not been notified by any person or entity who had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

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

### **DIRECTORS' RIGHTS TO ACQUIRE 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 ("**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 2014, there are no 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 interim period.

### **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 report.

### **CORPORATE GOVERNANCE**

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 2014 except for the following deviations:

## SUPPLEMENTARY INFORMATION *(Continued)*

### CORPORATE GOVERNANCE *(Continued)*

- 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 Articles of Association.
- Pursuant to Code Provision of A.6.7 of the CG Code, the independent non-executive Directors ("**INEDs**") and other non-executive Directors should attend general meetings. At the AGM of the Company held on 13 June 2014 ("**2014 AGM**"), save as Mr. Guo Chao Tian and Mr. Li Jian Jun, both are independent non-executive Directors who were unable to attend due to their business engagement in China, the majority of Directors of the Company had attended the 2014 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 report.

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

### **CHANGES IN INFORMATION OF DIRECTORS**

During the six months ended 30 June 2014, after having made all reasonable enquiry, the Company is not aware of any changes in information of the Directors since the date of the 2013 Annual Report of the Company required to be disclosed pursuant to Rule 13.51B (1) of the Listing Rules.

### **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 2014. The term 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 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 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, Board Diversity Policy, 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 and 3 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 term of reference of the Investment Committee is available on the Company's website.

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

The interim report of the Company for 2014 containing all information required by the Listing Rules will be dispatched to Shareholders and made available on the websites of the Company ([www.chinawaterind.com](http://www.chinawaterind.com)) and The Stock Exchange of Hong Kong Limited ([www.hkex.com.hk](http://www.hkex.com.hk)).

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

### **BOARD OF DIRECTORS**

The Board of the Company as at the date of report comprise Mr. Wang De Yin, Mr. Liu Feng, Mr. Lin 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**

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 2014

\* *For identification purpose only*