



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



2016

Interim Report

* for identification purpose only



CHINA WATER INDUSTRY GROUP LIMITED
INTERIM REPORT 2016

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Wang De Yin (*Chairman and Chief Executive Officer*)
Mr. Lin Yue Hui
Mr. Liu Feng
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. Li Jian Jun
Mr. Guo Chao Tian

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. Liu Hui Quan
Mr. Li Jian Ping
Mr. Huang De Ping
Ms. Zeng Yuan Chun (Appointed on 18 January 2016)

COMPANY SECRETARY

Ms. Chu Yin Yin, Georgiana

AUTHORISED REPRESENTATIVES

Mr. Liu Feng
Ms. Chu Yin Yin, Georgiana

PRINCIPAL BANKERS

PRC

Agricultural Bank of China
Bank of China
Industrial and Commercial Bank of China Limited

Hong Kong

Bank of China (Hong Kong) Limited
DBS Bank (Hong Kong) Limited
Chiyu Banking Corporation Limited
The Hongkong and Shanghai
Banking Corporation Limited
Hang Seng Bank Limited

LEGAL ADVISERS AS TO HONG KONG LAWS

Reed Smith Richards Butler
Robertsons Solicitors & Notaries
Johnny K.K. Leung & Co.

LEGAL ADVISERS 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

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 TRANSFER OFFICE

Union Registrars Limited
Suites 3301-04, 33/F
Two Chinachem Exchange Square
338 King's Road
North Point
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HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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STOCK

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FINANCIAL HIGHLIGHT

	Six months ended 30 June		Change
	2016	2015	
	HK\$'000	HK\$'000	%
• Financial Results			
Revenue	246,117	226,188	8.81%
Gross Profit	94,495	81,665	15.71%
(Loss) profit for the period	(1,862)	234,484	(100.79%)
(Loss) profit attributable to owners of the Company	(18,935)	225,523	(108.40%)
(Loss) earnings per share (HK Cents) – Basic and diluted	(1.19)	16.42	(107.25%)
	As at	As at	
	30 June	31 December	
	2016	2015	Change
	HK\$'000	HK\$'000	%
• Financial Position			
Total assets	2,500,908	2,621,663	(4.61%)
Total liabilities	896,394	969,104	(7.50%)
Net current assets	373,869	511,756	(26.94%)
Current ratio	1.55	1.72	(9.88%)
Cash and cash equivalents	353,717	476,873	(25.83%)
Gearing ratio	35.84%	36.97%	(3.06%)
Total net asset value	1,604,514	1,652,559	(2.91%)
Equity attributable to the Company's shareholders	1,252,840	1,310,827	(4.42%)
Equity attributable to the Company's shareholders per share (HK\$)	0.78	0.82	(4.88%)
• The Board resolved not to declare any interim dividend for the six months ended 30 June 2016 (2015: nil).			

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2016

	Note	Six months ended 30 June	
		2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Revenue	4	246,117	226,188
Cost of sales		(151,622)	(144,523)
Gross profit		94,495	81,665
Other operating income, net		32,638	15,294
Change in fair value of derivative financial instruments	14	–	46
Change in fair value of investment properties		107	–
Net (loss) gain on financial assets at fair value through profit or loss		(33,535)	256,475
Net gain on disposal of available-for-sale investments		35,699	–
Reversal of impairment loss recognised on an associate		–	33,540
Reversal of impairment loss recognised on trade and other receivables		–	365
Selling and distribution expenses		(13,894)	(15,088)
Administrative expenses		(78,439)	(64,414)
Finance costs	6	(9,159)	(9,491)
Impairment loss recognised on available-for-sale investments		(11,777)	–
Impairment loss recognised on trade and other receivables		–	(3,476)
Share of profit (loss) of associates		28	(6,316)
Profit before taxation		16,163	288,600
Income tax	7	(18,025)	(54,116)
(Loss) profit for the period	8	(1,862)	234,484
Attributable to:			
Owners of the Company		(18,935)	225,523
Non-controlling interests		17,073	8,961
		(1,862)	234,484
(Loss) earnings per share (HK Cents)			
Basic and diluted	9	(1.19)	16.42

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

For the six months ended 30 June 2016

	Six months ended 30 June	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
(Loss) profit for the period	(1,862)	234,484
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:		
Exchange difference arising during the period	(26,833)	2,695
	(26,833)	2,695
Available-for-sale investments:		
Net gain arising on revaluation of available-for-sale investments during the period	3,800	30,097
Reclassification upon impairment	11,777	–
Reclassification adjustments relating to available-for-sale investments disposed of during the period	(35,699)	–
	(20,122)	30,097
Share of other comprehensive income of associates	(612)	535
Items that will not be reclassified to profit or loss:		
Gain on revaluation of investment properties upon transfer from property, plant and equipment	3,469	–
Deferred tax arising from revaluation on investment properties	(867)	–
	2,602	–
Other comprehensive income for the period, net of income tax	(44,965)	33,327
Total comprehensive income for the period	(46,827)	267,811
Attributable to:		
Owners of the Company	(57,987)	257,754
Non-controlling interests	11,160	10,057
	(46,827)	267,811

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2016

	Note	At 30 June 2016 HK\$'000 (Unaudited)	At 31 December 2015 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	11	367,392	277,405
Deposits paid for acquisition of property, plant and equipment		63,377	60,609
Deposits paid for acquisition of land use rights		55,341	–
Deposits paid for acquisition of subsidiaries		–	29,843
Prepaid lease payments		21,603	22,189
Concession intangible assets		536,866	549,083
Investment properties	11	26,643	–
Other non-current assets		20,256	20,711
Other intangible assets		196,953	173,093
Available-for-sale investments	16	74,444	181,424
Interest in associates		74,076	74,660
Deferred tax assets		7,089	7,096
		1,444,040	1,396,113
Current assets			
Inventories		204,136	204,383
Financial assets at fair value through profit or loss	16	57,921	220,061
Trade and other receivables	12	403,210	305,606
Prepaid lease payments		976	1,053
Amounts due from customers for contract works		26,037	13,463
Tax recoverable		3,633	4,111
Pledged bank deposits		7,238	–
Cash held at financial institutions		346	923
Bank balances and cash		353,371	475,950
		1,056,868	1,225,550
Current liabilities			
Trade and other payables	13	242,545	306,042
Amounts due to customers for contract works		137,342	112,180
Bank borrowings		35,294	29,007
Other loans	14	197,956	203,982
Amounts due to non-controlling shareholders of subsidiaries		28,925	27,903
Loans from associates		12,839	3,130
Tax payables		28,098	31,550
		682,999	713,794
Net current assets		373,869	511,756
Total assets less current liabilities		1,817,909	1,907,869

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

At 30 June 2016

	Note	At 30 June 2016 HK\$'000 (Unaudited)	At 31 December 2015 HK\$'000 (Audited)
Capital and reserves			
Share capital	15	798,270	798,270
Share premium and reserves		454,570	512,557
Equity attributable to owners of the Company		1,252,840	1,310,827
Non-controlling interests		351,674	341,732
TOTAL EQUITY		1,604,514	1,652,559
Non-current liabilities			
Bank borrowings		51,371	103,852
Other loans		78,405	79,627
Government grants		16,409	17,256
Deferred tax liabilities		67,210	54,575
		213,395	255,310
		1,817,909	1,907,869

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

	Attributable to owners of the Company							Non-controlling interests	Total equity	
	Share capital	Share premium	Revaluation reserve	Translation reserve	Reserve fund	Investment				
						revaluation reserve	Accumulated losses			
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
At 1 January 2015 (audited)	666,166	589,402	3,553	41,646	29,685	-	(390,875)	939,577	330,417	1,269,994
Changes in equity for the six months ended 30 June 2015:										
Profit for the period	-	-	-	-	-	-	225,523	225,523	8,961	234,484
Other comprehensive income for the period	-	-	-	2,134	-	30,097	-	32,231	1,096	33,327
Total comprehensive income for the period	-	-	-	2,134	-	30,097	225,523	257,754	10,057	267,811
Placing of new shares	133,000	367,080	-	-	-	-	-	500,080	-	500,080
Transaction costs attributable to issue of shares	-	(376)	-	-	-	-	-	(376)	-	(376)
Transfers to reserve funds	-	-	-	-	3,255	-	(3,255)	-	-	-
At 30 June 2015 (unaudited)	799,166	956,106	3,553	43,780	32,940	30,097	(168,607)	1,697,035	340,474	2,037,509

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

For the six months ended 30 June 2016

	Attributable to owners of the Company									Non-controlling interests	Total equity
	Share capital	Share premium	Revaluation reserve	Translation reserve	Reserve fund	Investment		Accumulated losses	Total		
						revaluation reserve	HK\$'000				
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2016 (audited)	798,270	954,318	-	(9,671)	29,685	23,044	(484,819)	1,310,827	341,732	1,652,559	
Changes in equity for the six months ended 30 June 2016:											
Loss for the period	-	-	-	-	-	-	(18,935)	(18,935)	17,073	(1,862)	
Other comprehensive income for the period	-	-	1,327	(20,257)	-	(20,122)	-	(39,052)	(5,913)	(44,965)	
Total comprehensive income for the period	-	-	1,327	(20,257)	-	(20,122)	(18,935)	(57,987)	11,160	(46,827)	
Dividends paid to non-controlling shareholders	-	-	-	-	-	-	-	-	(1,218)	(1,218)	
Transfers to reserve funds	-	-	-	-	7,024	-	(7,024)	-	-	-	
At 30 June 2016 (unaudited)	798,270	954,318	1,327	(29,928)	36,709	2,922	(510,778)	1,252,840	351,674	1,604,514	

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016

	Six months ended 30 June	
	2016 <i>HK\$'000</i> (Unaudited)	2015 <i>HK\$'000</i> (Unaudited)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	28,919	(36,443)
NET CASH USED IN INVESTING ACTIVITIES	(93,490)	(269,266)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(51,944)	642,272
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(116,515)	336,563
CASH AND CASH EQUIVALENTS AT 1 JANUARY	476,873	324,066
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(6,641)	1,733
CASH AND CASH EQUIVALENTS AT 30 JUNE,	353,717	662,362
ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS		
CASH HELD BY FINANCIAL INSTITUTIONS	346	215
BANK BALANCES AND CASH	353,371	662,147
CASH AND CASH EQUIVALENTS AT 30 JUNE,	353,717	662,362

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2016

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 this report.

The unaudited condensed consolidated interim financial statements are presented in Hong Kong dollars ("HK\$"). Other than those subsidiaries established in the People's Republic of China (the "PRC") whose functional currency is Renminbi ("RMB"), the functional currency of the Company and its subsidiaries (collectively referred to as the "Group") is HK\$.

The Group is principally engaged in (i) provision of water supply, sewage treatment and construction services; and (ii) exploitation and sale of renewable energy in the PRC.

2. BASIS OF PREPARATION

The unaudited 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 unaudited condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2015, except for the accounting policy changes that are expected to be reflected in the 2016 annual financial statements. Details of any changes in accounting policies are set out in note 3.

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

3. PRINCIPAL ACCOUNTING POLICIES

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

The HKICPA has issued the following amendments to HKFRSs that are first effective for current accounting period of the Group.

Amendments to HKFRS 11	Joint Arrangements: Accounting for Acquisitions of Interests
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2012-2014 Cycle
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception

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

For the six months ended 30 June 2016

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current account period.

In addition, the Group has applied the following accounting policies during the current period:

Incompletion of initial accounting for a business combination

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

4. REVENUE

	Six months ended 30 June	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Water supply services	54,573	54,172
Sewage treatment services	22,776	24,969
Water supply related installation and construction income	107,022	98,555
Water supply and sewage treatment infrastructure construction income	12,357	30,317
Sale of electricity	23,671	16,485
Sale of compressed natural gas	20,035	1,690
Service income from collection of landfill gas	5,683	–
	246,117	226,188

Sales of electricity to provincial power grid companies included tariff adjustment received and receivable from the relevant government authorities.

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

For the six months ended 30 June 2016

5. SEGMENT INFORMATION

The Group manages its businesses by divisions, which are organised by a mixture of both business lines (products and services) and geography. In a manner consistent with the way in which information is reported internally to the board of directors of the Company being the chief operating decision maker for the purposes of resource allocation and performance assessment, the Group has presented the following two reportable segments. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

The Group has identified the following reportable segments:

- (i) "Provision of water supply, sewage treatment and construction services" segment, which derives revenues primarily from the provision of water supply and sewage treatment operations and related construction services; and
- (ii) "Exploitation and sale of renewable energy" segment, which derives revenues primarily from sale of electricity and compressed natural gas from biogas power plants.

Information regarding the Group's reportable segments as provided to the board of directors of the Company for the purposes of resource allocation and assessment of segment performance is set out below.

Segment turnover and results

The following is an analysis of the Group's turnover and results by reportable and operating segments.

For the period ended 30 June 2016

	Provision of water supply, sewage treatment and construction services HK\$'000	Exploitation and sale of renewable energy HK\$'000	Total HK\$'000
Reportable segment revenue	196,728	49,389	246,117
Reportable segment profit	38,282	5,406	43,688
Unallocated corporate expenses			(10,843)
Interest income			117
Interest on fixed coupon bonds			(7,186)
Net gain on disposal of available-for-sale investments			35,699
Impairment loss recognised on available-for-sale investments			(11,777)
Net loss on financial assets at fair value through profit or loss			(33,535)
Profit before taxation			16,163

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

For the six months ended 30 June 2016

5. SEGMENT INFORMATION (Continued)

Segment turnover and results (Continued)

For the period ended 30 June 2015

	Provision of water supply, sewage treatment and construction services HK\$'000	Exploitation and sale of renewable energy HK\$'000	Total HK\$'000
Reportable segment revenue	208,013	18,175	226,188
Reportable segment profit (loss)	55,826	(10,006)	45,820
Unallocated corporate expenses			(8,676)
Interest income			9
Imputed interest on convertible bonds			(1,027)
Interest on other loans			(4,047)
Change in fair value of derivative financial instruments			46
Net gain on financial assets at fair value through profit or loss			256,475
Profit before taxation			288,600

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

For the six months ended 30 June 2016

5. SEGMENT INFORMATION (Continued)

Other segment information

For the period ended 30 June 2016

	Provision of water supply, sewage treatment and construction services HK\$'000	Exploitation and sale of renewable energy HK\$'000	Corporate HK\$'000	Total HK\$'000
Interest income	17,763	230	117	18,110
Interest expenses	(1,027)	(946)	(7,186)	(9,159)
Share of profit of associates	28	–	–	28
Depreciation of property, plant and equipment	(4,119)	(8,618)	(1,011)	(13,748)
Amortisation of:				
– Prepaid lease payments	(496)	–	–	(496)
– Concession intangible assets	(14,447)	–	–	(14,447)
– Other intangible assets	–	(7,510)	–	(7,510)
Loss on disposal of property, plant and equipment	(60)	(1)	–	(61)
Net gain on disposal of available-for-sale investments	–	–	35,699	35,699
Impairment loss recognised on available-for-sale investments	–	–	(11,777)	(11,777)
Additions to non-current segment assets	44,324	197,370	12	241,706

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

For the six months ended 30 June 2016

5. SEGMENT INFORMATION (Continued)

Other segment information (Continued)

For the period ended 30 June 2015

	Provision of water supply, sewage treatment and construction services HK\$'000	Exploitation and sale of renewable energy HK\$'000	Corporate HK\$'000	Total HK\$'000
Interest income	2,124	14	9	2,147
Interest expenses	(2,878)	(1,539)	(5,074)	(9,491)
Share of losses of associates	(6,316)	–	–	(6,316)
Depreciation of property, plant and equipment	(2,410)	(3,686)	(824)	(6,920)
Amortisation of:				
– Prepaid lease payments	(528)	–	–	(528)
– Concession intangible assets	(12,859)	–	–	(12,859)
– Other intangible assets	–	(5,309)	–	(5,309)
Gain on disposal of property, plant and equipment	216	–	–	216
Reversal of impairment loss recognised on an associate	33,540	–	–	33,540
Reversal of impairment loss recognised on trade and other receivables	365	–	–	365
Impairment loss recognised on trade and other receivables	(3,476)	–	–	(3,476)
Additions to non-current segment assets	46,534	39,999	17	86,550

No geographical information is presented as the Group's business is principally carried out in the PRC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

For the six months ended 30 June 2016

6. FINANCE COSTS

	Six months ended 30 June	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Interest on:		
– convertible bonds	–	1,027
– bank borrowings	1,999	3,435
– other loans	9,639	4,754
– loan from an associate	–	275
Total borrowing cost	11,638	9,491
Less: interest capitalised included in construction in progress	(2,479)	–
	9,159	9,491

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Current tax		
– PRC Enterprise Income Tax (“EIT”)	17,572	10,732
– Hong Kong profits tax	–	1,252
Overprovision of tax in respect of prior years	–	(409)
Deferred tax	453	42,541
	18,025	54,116

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit for the six months ended 30 June 2016 (six months ended 30 June 2015: 16.5%).

Under the Law of the PRC on EIT (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards. Accordingly, provision for PRC EIT for the PRC subsidiaries is calculated at 25% on the estimated assessable profits for both periods, except disclosed as follows.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

For the six months ended 30 June 2016

7. INCOME TAX EXPENSE (Continued)

Foshan City Gaoming Huaxin Sewage Treatment Company Limited ("Gaoming Huaxin"), Nanjing Feng Shang New Technology Limited Liability Company ("Nanjing Feng Shang"), Hunan Huiming Environmental Technology Limited ("Huiming Technology"), Datang Huayin Hengyang Environmental Power Company Limited ("Heng Yang Environmental"), Changsha Huiming Recycling Resource Technology Limited ("Changsha Huiming") and Shenzhen City Greenspring Recycling Resources Technology Limited ("Shenzhen City Greenspring") are engaged in sewage treatment, provision of electricity supply and sale of renewable energy, respectively. They are entitled to tax concessions whereby the profit for the first three financial years beginning with the first profit-making year is exempted from EIT and the profit for each of the subsequent three years is taxed at 50% of the prevailing tax rate. Accordingly:

- Gaoming Huaxin is exempted from PRC income tax from 1 January 2011 to 31 December 2013 and is entitled to a 50% exemption of income tax from 1 January 2014 to 31 December 2016.
- Nanjing Feng Shang, Huiming Technology and Heng Yang Environmental are exempted from PRC income tax from 1 January 2012 to 31 December 2014 and are entitled to a 50% exemption of income tax from 1 January 2015 to 31 December 2017.
- Changsha Huiming is exempted from PRC income tax from 1 January 2015 to 31 December 2017 and is entitled to a 50% exemption of income tax from 1 January 2018 to 31 December 2020.
- Shenzhen City Greenspring is exempted from PRC income tax from 1 January 2016 to 31 December 2018 and is entitled to a 50% exemption of income tax from 1 January 2019 to 31 December 2021.

8. (LOSS) PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
(Loss) profit for the period has been arrived at after charging (crediting):		
Staff costs including directors' emoluments		
– salaries, wages and other benefits	59,824	47,728
– retirement benefits scheme contributions	8,358	6,942
Total staff costs	68,182	54,670
Amortisation of:		
– Prepaid lease payments	496	528
– Concession intangible assets (included in cost of sales)	14,447	12,859
– Other intangible assets	7,510	5,309
Depreciation of property, plant and equipment	13,748	6,920
Loss (gain) on disposal of property, plant and equipment	61	(216)
Bank interest income	(1,336)	(30)
Minimum lease payments under operating leases	2,902	3,452
Net exchange loss	1,626	139

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

For the six months ended 30 June 2016

9. (LOSS) EARNINGS PER SHARE

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

	Six months ended 30 June	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
(Loss) profit attributable to the owners of the Company, used in the basic (loss) earnings per share	(18,935)	225,523
	'000	'000
Weighted average number of ordinary shares issue during the period	1,596,540	1,373,625
(Loss) earnings per share (HK Cents):		
Basic and diluted	(1.19)	16.42

For the six months ended 30 June 2016 and 30 June 2015, diluted (loss) earnings per share equals basic (loss) earnings per share as there was no dilutive potential share.

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 AND INVESTMENT PROPERTIES

During the six months ended 30 June 2016, the Group acquired property, plant and equipment amounted to approximately HK\$134,873,000 (six months ended 30 June 2015: approximately HK\$45,290,000), of which HK\$63,744,000 was purchased through acquisition of subsidiaries (six months ended 30 June 2015: nil).

During the six months ended 30 June 2016, the Group disposed of property, plant and equipment with carrying amount of approximately HK\$195,000 (six months ended 30 June 2015: approximately HK\$268,000).

During the six months ended 30 June 2016, the Group transferred certain owner-occupied properties with a carrying amount of HK\$23,069,000 (six months ended 30 June 2015: nil). The fair values of these properties upon transfer and at 30 June 2016 were HK\$26,538,000 and HK\$26,643,000, respectively, as determined by the directors using income approach with reference to the valuation performed by a qualified valuer.

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

For the six months ended 30 June 2016

12. TRADE AND OTHER RECEIVABLES

	At 30 June 2016 HK\$'000 (Unaudited)	At 31 December 2015 HK\$'000 (Audited)
Trade receivables	47,994	38,010
Less: impairment loss recognised	(2,367)	(2,331)
	45,627	35,679
Other receivables	209,550	83,197
Less: impairment loss recognised	(7,878)	(10,466)
	201,672	72,731
Loan receivables	114,599	112,142
Less: impairment loss recognised	(54,844)	(54,844)
	59,755	57,298
Deposits and prepayments <i>(Note)</i>	96,156	139,898
	403,210	305,606

Note: Deposits and prepayments were mainly (i) deposits paid for purchases and (ii) tender deposits paid to independent third parties for bidding construction projects.

The Group allows an average credit period of 5 days to 180 days given to the customers.

The ageing analysis of the trade receivables, net, as at the end of the reporting period, based on invoice date which approximates the respective revenue recognition date, is as follows:

	At 30 June 2016 HK\$'000 (Unaudited)	At 31 December 2015 HK\$'000 (Audited)
Within 90 days	32,477	33,164
91 to 180 days	4,369	401
181 to 365 days	4,817	–
Over 1 year	3,964	2,114
	45,627	35,679

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

For the six months ended 30 June 2016

13. TRADE AND OTHER PAYABLES

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

	At 30 June 2016 HK\$'000 (Unaudited)	At 31 December 2015 HK\$'000 (Audited)
Within 90 days	9,493	14,880
91 to 180 days	6,876	1,198
181 to 365 days	5,982	2,065
Over 1 year	5,971	7,156
Trade payables	28,322	25,299
Other payables	203,031	268,800
Interest payables	11,192	11,943
	242,545	306,042

14. FIXED COUPON BONDS AND CONVERTIBLE BONDS

(a) Fixed coupon bonds

On 1 April 2015, the Company and Prosper Talent Limited entered into a Subscription Agreement in respect of the issuance of other loans with an aggregate principal amount of not more than HK\$300 million at a fixed coupon interest of 10% per annum, comprising of the Series A Bond, Series B Bond and Series C Bond. Series A Bond and Series B Bond with an aggregate amount of HK\$200 million, were issued on 9 April 2015 and 8 May 2015, respectively. These 2015 Fixed-rate New Other Loans amounted to HK\$193,049,000 as at 31 December 2015, and were repaid in full upon maturity in April 2016 and May 2016 in accordance with the terms of the bond instrument.

On 14 June 2016, the Company, Guarantor and Prosper Talent Limited entered into a Subscription Agreement in respect of the issuance of other loans with an aggregate principal amount of not more than HK\$300 million at a fixed coupon interest of 10% per annum, comprising of the Series A Bond and Series B Bond. Series A Bond of HK\$200 million was issued on 14 June 2016. This Fixed-rate New Other Loan will mature in one year from the date of issuance. As at 30 June 2016, this Fixed-rate New Other Loan amounted to HK\$187,847,000, and were classified as short-term other loans. The Company did not request for the issuance of Series B Bond on or before 31 July 2016 and Series B Bond automatically lapsed thereafter (the "2016 Fixed-rate New Other Loan"). The repayment of the 2016 Fixed-rate New Other Loan is guaranteed by a substantial shareholder of the Company.

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

For the six months ended 30 June 2016

14. FIXED COUPON BONDS AND CONVERTIBLE BONDS *(Continued)*

(b) 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 Bond and the Series B Bond.

The net proceeds from the Subscription (after deducting all related expenses) of approximately HK\$200 million are intended to be used for investment in the establishment and operation of water supply companies, sewage treatment companies and solid waste treatment companies.

The Company fully redeemed the outstanding Series A Bond and Series B Bond upon maturity on 30 October 2014 and 14 January 2015, respectively. Following the Series A Bond and Series B Bond being fully redeemed, the Company has no outstanding convertible bonds.

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

	Liability HK\$'000	Derivatives component embedded in convertible bonds HK\$'000	Total HK\$'000
At 1 January 2015	103,473	46	103,519
Imputed interest recognised	1,027	–	1,027
Redemption of Series B Bond	(104,500)	–	(104,500)
Gain on change in fair value of derivatives embedded in convertible bonds	–	(46)	(46)
At 31 December 2015, 1 January 2016 and 30 June 2016	–	–	–

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

For the six months ended 30 June 2016

15. SHARE CAPITAL

	At 30 June 2016 (Unaudited)		At 31 December 2015 (Audited)	
	Number of shares '000	Amount HK\$'000	Number of shares '000	Amount HK\$'000
Authorised capital:				
Ordinary shares of HK\$0.50 each				
At the beginning and the end of the period/year	4,000,000	2,000,000	4,000,000	2,000,000
Convertible preference shares of HK\$0.10 each				
At the beginning and the end of the period/year	2,000,000	200,000	2,000,000	200,000
Issued and fully paid:				
Ordinary shares of HK\$0.5 each				
At the beginning of the period/year	1,596,540	798,270	1,332,332	666,166
Placing of new shares (<i>Note 1</i>)	–	–	266,000	133,000
Purchase of own shares for cancellation (<i>Note 2</i>)	–	–	(1,792)	(896)
At the end of the period/year	1,596,540	798,270	1,596,540	798,270

Note 1: On 30 May 2014, the Company entered into a placing agreement with the placing agent, pursuant to which the Company had through placing agent to place out 222,000,000 new ordinary shares at a 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\$216.4 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.

On 26 May 2015, the Company entered into the placing agreement with independent subscribers, pursuant to which, the Company had placed out 266,000,000 new ordinary shares at placing price of HK\$1.88 each to independent subscribers. The transaction was completed on 2 June 2015 and 5 June 2015. The net proceeds from the Placing was approximately HK\$499.70 million which was intended to be used for (i) as to approximately 10% for general working capital purpose; and (ii) as to approximately 90% for future business development and investment of the Group.

Note 2: Pursuant to an ordinary resolution passed at the Annual General Meeting of the Company held on 4 June 2015, a general mandate was granted to the directors of the Company to buy back shares not exceeding 10% of the issued share capital of the Company at the date of passing the resolution.

The Company acquired 1,792,000 of its own shares with a nominal value of HK\$0.50 each through purchases on the Hong Kong Stock Exchange on 24 August 2015. The repurchased shares were cancelled and total amount paid to acquire the shares was approximately HK\$2,684,000 and has been deducted from share capital and share premium within shareholders' equity.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

For the six months ended 30 June 2016

16. INVESTMENTS

	Available-for-sale investments		Financial assets at fair value through profit or loss – held for trading	
	At 30 June 2016 HK\$'000 (Unaudited)	At 31 December 2015 HK\$'000 (Audited)	At 30 June 2016 HK\$'000 (Unaudited)	At 31 December 2015 HK\$'000 (Audited)
– Equity securities listed in Hong Kong	74,444	146,409	57,921	105,133
– Unlisted US dollar based investment funds (the “Funds”)	–	35,015	–	114,928
	74,444	181,424	57,921	220,061

The fair value of listed equity securities are determined based on the quoted market bid prices available on the Stock Exchange.

The Funds primarily invest in listed securities in Asian market, and are stated with reference to the net asset values provided by the fund managers on the last day of each calendar month.

Financial instruments carried at fair value

	At 30 June 2016				At 31 December 2015			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Recurring fair value measurements								
Assets								
Available-for-sale investments								
– Listed	74,444	–	–	74,444	146,409	–	–	146,409
– Unlisted	–	–	–	–	–	–	35,015	35,015
Financial assets at fair value through profit or loss								
– Listed	57,921	–	–	57,921	105,133	–	–	105,133
– Unlisted	–	–	–	–	–	–	114,928	114,928

During the six months ended 30 June 2016, there were no significant transfers between instruments levels.

Information about Level 3 fair value measurements:

	Valuation technique	Unobservable inputs	Input values
Unlisted investment funds	Net asset value	n/a	n/a

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

For the six months ended 30 June 2016

16. INVESTMENTS (Continued)

The movement of unlisted US dollar based investment funds (Level 3) is set out below:

	Available-for-sale investments HK\$'000	Financial assets at fair value through profit or loss HK\$'000
At 31 December 2014 and 1 January 2015	–	179,267
Subscription	80,000	–
Disposals	–	(42,361)
Fund dividend received in the form of additional shares in the funds	8,766	1,669
Fair value change		
– included in net loss on financial assets at fair value through profit or loss	–	(23,647)
– included in other comprehensive income	(53,751)	–
At 31 December 2015 and 1 January 2016	35,015	114,928
Disposals	(69,000)	(86,422)
Fair value change		
– included in net loss on financial assets at fair value through profit or loss	–	(28,506)
– included in other comprehensive income	33,985	–
At 30 June 2016	–	–

The net unrealised gains arising from the remeasurement of the available-for-sale equity securities are recognised in investment revaluation reserve in other comprehensive income.

17. CAPITAL COMMITMENTS

	At 30 June 2016 HK\$'000 (Unaudited)	At 31 December 2015 HK\$'000 (Audited)
Contracted but not provided for:		
Acquisition of concession intangible assets and property, plant and equipment	138,135	110,548
Properties under development in relation to development cost of existing projects	7,903	9,274
	146,038	119,822

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

For the six months ended 30 June 2016

18. 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 three years (2015: 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 commitment for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	At 30 June 2016 HK\$'000 (Unaudited)	At 31 December 2015 HK\$'000 (Audited)
Within one year	3,774	1,966
After one year but within five years	1,344	5,044
	5,118	7,010

19. LITIGATIONS

i. Guangzhou Hyde Environmental Protection Technology Co., Ltd., an indirect wholly owned subsidiary of the Company

Guangzhou Hyde Environmental Protection Technology Co. Ltd.* (廣州市海德環保科技有限公司) ("Guangzhou Hyde") (an indirect wholly-owned subsidiary of the Company) and Yunnan Chaoyue Gas Company Limited* (雲南超越燃氣有限公司) ("Yunnan Chaoyue Gas") entered into the cooperation contract dated 13 October 2010, pursuant to which Guangzhou Hyde shall paid a refundable deposit of HK\$10 million ("Deposit") to Yunnan Chaoyue Gas for the purpose of obtaining the operation and management right of the Yunnan Dian Lake project ("Project").

Pursuant to the cooperation contract, Yunnan Chaoyue Gas shall refund the Deposit to Guangzhou Hyde within nine months once it was unsuccessfully to obtain the Project. Yunnan Chaoyue Gas has failed to repay the aforesaid Deposit to Guangzhou Hyde when it fell due despite Guangzhou Hyde's repeated requests and demands.

The Deposit was classified as loan receivable and fully impaired in 2011.

The dispute over cooperative contract between Guangzhou Hyde and Yunnan Chaoyue Gas was applied to Guangzhou Arbitration Commission ("Commission") for arbitration on 24 February 2012. The Commission accepted the case and started a trail on 5 June 2012. After the trail, arbitration tribunal ruled an award on 12 June 2012, adjudging that Yunnan Chaoyue Gas should pay Guangzhou Hyde the principal of RMB8.56 million and overdue interests thereon; and the relevant arbitration fees.

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

* The English names are for identification purpose only.

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

For the six months ended 30 June 2016

19. LITIGATIONS *(Continued)*

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

On 13 May 2013, Yunnan Chaoyue Gas provided loan repayment plan (the "Repayment Plan") to Guangzhou Hyde. On 1 September 2014, Kunming Court has approved the civil enforcement against Yunnan Chaoyue Gas. Up to the date of this report, Yunnan Chaoyue Gas has not performed the repayment obligation according to the Repayment Plan.

The aforesaid litigation is unlikely to have any significant material adverse financial impact on the Group.

ii. **Swift Surplus Holdings Limited, an indirect wholly-owned subsidiary of the Company**

On 21 August 2012, the Company and its subsidiary of Swift Surplus Holdings Limited ("Swift Surplus") (collectively as the "Lenders") entered into repayment agreements (the "Repayment Agreements") with the Sihui Sewage Treatment Co. Ltd.* (四會市城市污水處理有限公司) and Top Vision Management Limited ("Top Vision") (collectively as the "Borrowers") together with their respective guarantors, pursuant to which, the Borrowers shall repay to the Lenders the loan receivables of approximately HK\$58.43 million together with interest accrued thereon (the "Loan Receivables"). HK\$5 million of the Loan Receivables will be repaid on or before 30 September 2012 and the remaining Loan Receivables shall be repaid on or before 31 December 2012. On 29 August 2012, the Company only received HK\$5 million of the Loan Receivables. However, the remaining Loan Receivables of HK\$53.43 million (the "Remaining Loan Receivables") plus 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, 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.

* The English names are for identification purpose only.

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

For the six months ended 30 June 2016

19. LITIGATIONS *(Continued)*

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

On 20 August 2014, a petition was filed by Galaxaco Reservoir Holdings Limited ("Galaxaco") to wind up Top Vision, one of the creditors of Top Vision. Top Vision has now been wound up by the High Court by a Winding-up Order under Companies Winding-up Proceedings No.157/2014 and the first meeting of creditors of Top Vision was held on 30 October 2014 for the appointment of provisional of liquidator. On 14 January 2015, the solicitors act for Galaxaco requested the High Court to have the hearing adjourned for the appointment of liquidators (the "Appointment") pending the alleged negotiation settlement between Top Vision and all creditors including the Company and its subsidiary of Swift Surplus and Galaxaco. On 4 May 2015, The High Court appointed SHINEWING Specialist Advisory Services Limited as liquidators ("Liquidators"). The Liquidators have carried out the site visits and performed the investigation on PRC subsidiary of Top Vision. Up to the date of this report, the liquidators are in the course of raising funds to proceed with their proposed plan against Top Vision.

On 16 July 2015, the Zhaoqing Intermediate People's Court adjudged that the Final Judgement recognised and accepted to execute in Mainland China for the recovering the Outstanding Balance and the underlying interest from Top Vision ("PRC Judgement"). During the year, the Company has instructed its legal counsel to issue demand letters to respective guarantors, if guarantors fail to settle the Remaining Loan Receivables and the underlying interests within stipulated time, the Company will undertake the arbitration and civil action in Hong Kong against the respective guarantors. On 27 January 2016, the PRC Judgement was announced on the website of The People's Court Announcement for 60 days ("Announcement Period"). If Top Vision has not appealed for the PRC Judgement within 30 days after the Announcement Period, the PRC Judgement will be automatically effective thereafter, the Company can enforce the PRC Judgement. On 10 August 2016, Sihui City People's Court accepted to execute the PRC Judgement in Mainland China and requested Swift Surplus to provide the financial position statement relating to Top Vision. As at 30 June 2016 and 31 December 2015, the loan receivables from Top Vision of HK\$43.60 million were fully impaired.

The Board believed that there will be no significant financial impact on the Group as sufficient impairment loss on the Loan Receivables has been provided. It is unlikely that there will be a material adverse financial impact of the Group.

Save as disclosed above, the Group 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 2016

20. RELATED PARTY TRANSACTIONS

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

(ii) 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	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Short-term benefits	5,314	3,953
Post-employment benefits	58	44
	5,372	3,997

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

21. ACQUISITION OF SUBSIDIARIES

(a) Baoji City Electric Power Development Co., Ltd

On 3 August 2015, New China Water (Nanjing) Renewable Resources Investment Company Limited ("New China Water (Nanjing)") previously known as Greenspring (Nanjing) Recycling Resources Investment Company Limited, an indirectly wholly-owned subsidiary of the Company, entered into sale and purchase agreement with two independent parties to acquire the entire issued share capital of Baoji City Electric Power Development Co., Ltd* ("Baoji") for a cash consideration of RMB12.23 million (approximately HK\$15.29 million). The acquisition was completed on 23 May 2016, on the date the control in Baoji was passed to the Group, since then, the Group is interested in 100% equity interests of Baoji. Details of this acquisition are set out in the Company's announcements dated 3 August 2015. Baoji is principally engaged in new energy and renewable energy development, investment and associated technical research and consulting service, energy saving technical research and application. Baoji currently possesses of a waste landfill resource utilization project in Baoji City landfill site for an operation period of 20 years until April 2028.

	HK\$'000
Total consideration paid	12,000
Consideration payable	3,290
Total consideration paid and payable	15,290

* The English names are for identification purpose only.

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

For the six months ended 30 June 2016

21. ACQUISITION OF SUBSIDIARIES *(Continued)*

(a) Baoji City Electric Power Development Company Limited *(Continued)*

Assets and liabilities at the date of acquisition recognised by the Group:

	<i>HK\$'000</i>
Property, plant and equipment	5,403
Other intangible assets	5,443
Inventories	142
Trade and other receivables	6,171
Bank balances and cash	294
Trade and other payables	(802)
Deferred tax liabilities	(1,361)
	<hr/> 15,290

The initial accounting for the above acquisition has been determined provisionally, awaiting the receipt of professional valuation in relation to the above assets.

The fair value as well as the gross contractual amounts of the trade and other receivables acquired amounted to HK\$6,171,000 at the date of acquisition.

Net cash outflow arising on acquisition

	<i>HK\$'000</i>
Total consideration paid	(12,000)
Bank balances and cash acquired	294
	<hr/> (11,706)

Impact of acquisition on the results of the Group

Included in the Group's profit for the six months ended 30 June 2016 is a loss of HK\$212,000 attributable to the additional business generated by Baoji. Revenue included in the Group's revenue for the six months ended 30 June 2016 amount to HK\$179,000.

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

For the six months ended 30 June 2016

21. ACQUISITION OF SUBSIDIARIES *(Continued)*

(b) Datang Huayin Chenzhou Environmental Power Company Limited

On 21 September 2015, New China Water (Nanjing) entered into sale and purchase agreement with an independent party to acquire the entire issued share capital of Datang Huayin Chenzhou Environmental Power Company Limited* ("Chenzhou Environmental") for a cash consideration of RMB14 million (approximately HK\$17.08 million). The acquisition was completed on 3 March 2016, on the date the control in Chenzhou Environmental was passed to the Group, since then, the Group is interested in 100% equity interests of Chenzhou Environmental. Details of this acquisition are set out in the Company's announcements dated 21 September 2015. Chenzhou Environmental is principally engaged in solid waste detox treatment and landfill gas power generation in Xiangshan Ping, Suxian District, Chenzhou City, Hunan Province, for an operation period of 20 year until 29 February 2029.

	<i>HK\$'000</i>
Total consideration paid	17,080
Consideration payable	–
<hr/>	
Total consideration paid and payable	17,080

Assets and liabilities at the date of acquisition recognised by the Group:

	<i>HK\$'000</i>
Property, plant and equipment	13,287
Other intangible assets	3,513
Inventories	6
Trade and other receivables	3,167
Bank balances and cash	301
Trade and other payables	(548)
Deferred tax liabilities	(2,646)
<hr/>	
	17,080

The initial accounting for the above acquisition has been determined provisionally, awaiting the receipt of professional valuation in relation to the above assets.

The fair value as well as the gross contractual amounts of the trade and other receivables acquired amounted to HK\$3,167,000 at the date of acquisition.

* The English names are for identification purpose only.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

For the six months ended 30 June 2016

21. ACQUISITION OF SUBSIDIARIES (Continued)

(b) Datang Huayin Chenzhou Environmental Power Company Limited (Continued)

Net cash outflow arising on acquisition

	HK\$'000
Consideration paid	(17,080)
Bank balances and cash acquired	301
	<hr/>
	(16,779)

Impact of acquisition on the results of the Group

Included in the Group's profit for the six months ended 30 June 2016 is a loss of HK\$99,000 attributable to the additional business generated by Chenzhou Environmental. Revenue included in the Group's revenue for the six months ended 30 June 2016 amount to HK\$651,000.

(c) Datang Huayin Heng Yang Environmental Power Company Limited

On 21 September 2015, New China Water (Nanjing) entered into sale and purchase agreement with an independent party to acquire the entire issued share capital of Datang Huayin Heng Yang Environmental Power Company Limited* ("Heng Yang Environmental") for a cash consideration of RMB11 million (approximately HK\$13.42 million). The acquisition was completed on 3 March 2016, on the date the control in Heng Yang Environmental was passed to the Group, since then, the Group is interested in 100% equity interests of Heng Yang Environmental. Details of this acquisition are set out in the Company's announcements dated 21 September 2015. Heng Yang Environmental is principally engaged in solid waste detox treatment and landfill gas power generation in Zhang Mu Town, Hengyang County, Hunan Province, for an operation period of 20 years until October 2029.

	HK\$'000
Total consideration paid	13,420
Consideration payable	–
	<hr/>
Total consideration paid and payable	13,420

* The English names are for identification purpose only.

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

For the six months ended 30 June 2016

21. ACQUISITION OF SUBSIDIARIES *(Continued)*

(c) Datang Huayin Heng Yang Environmental Power Company Limited *(Continued)*

Assets and liabilities at the date of acquisition recognised by the Group:

	<i>HK\$'000</i>
Property, plant and equipment	11,363
Other intangible assets	3,633
Trade and other receivables	1,271
Bank balances and cash	431
Trade and other payables	(723)
Deferred tax liabilities	(2,555)
	<hr/> 13,420

The initial accounting for the above acquisition has been determined provisionally, awaiting the receipt of professional valuation in relation to the above assets.

The fair value as well as the gross contractual amounts of the trade and other receivables acquired amounted to HK\$1,271,000 at the date of acquisition.

Net cash outflow arising on acquisition

	<i>HK\$'000</i>
Consideration paid	(13,420)
Bank balances and cash acquired	431
	<hr/> (12,989)

Impact of acquisition on the results of the Group

Included in the Group's profit for the six months ended 30 June 2016 is a loss of HK\$220,000 attributable to the additional business generated by Heng Yang Environmental. Revenue included in the Group's revenue for the six months ended 30 June 2016 amount to HK\$884,000.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

For the six months ended 30 June 2016

21. ACQUISITION OF SUBSIDIARIES (Continued)

(d) Chongqing Camda New Energy Equipment Company Limited

On 25 November 2015, New China Water (Nanjing) entered into sale and purchase agreement with an independent party to acquire the entire issued share capital of Chongqing Camda New Energy Equipment Company Limited* ("Chongqing Camda") for a cash consideration of RMB35.4 million (approximately HK\$44.3 million). The acquisition was completed on 13 May 2016, on the date the control in Chongqing Camda was passed to the Group, since then, the Group is interested in 100% equity interests of Chongqing Camda. Details of this acquisition are set out in the Company's announcements dated 25 November 2015. Chongqing Camda currently operates the Chongqing Changshengqiao Landfill gas collection and power generation project until May 2028 pursuant to the Chongqing Changshengqiao Landfill gas collection project cooperation agreement* (重慶長生橋垃圾衛生填埋場沼氣收集和利用項目合作協定書), granting the cooperation right to invest, construct, operate, maintenance and transfer the landfill project and in return to obtain a portion of the landfill's operating earnings for 21 years.

	HK\$'000
Total consideration paid	23,620
Consideration payable	20,680
<hr/>	
Total consideration paid and payable	44,300

Assets and liabilities at the date of acquisition recognised by the Group:

	HK\$'000
Property, plant and equipment	26,635
Other intangible assets	20,640
Inventories	232
Trade and other receivables	9,717
Tax recoverable	203
Bank balances and cash	944
Trade and other payables	(8,911)
Deferred tax liabilities	(5,160)
<hr/>	
	44,300

The initial accounting for the above acquisition has been determined provisionally, awaiting the receipt of professional valuation in relation to the above assets.

The fair value as well as the gross contractual amounts of the trade and other receivables acquired amounted to HK\$9,717,000 at the date of acquisition.

* The English names are for identification purpose only.

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

For the six months ended 30 June 2016

21. ACQUISITION OF SUBSIDIARIES *(Continued)*

(d) Chongqing Camda New Energy Equipment Company Limited *(Continued)*

Net cash outflow arising on acquisition

	<i>HK\$'000</i>
Consideration paid	(23,620)
Bank balances and cash acquired	944
	(22,676)

Impact of acquisition on the results of the Group

Included in the Group's profit for the six months ended 30 June 2016 is HK\$2,491,000 attributable to the additional business generated by Chongqing Camda. Revenue included in the Group's revenue for the six months ended 30 June 2016 amount to HK\$4,120,000.

(e) Hainan Camda New Energy Equipment Company Limited

On 25 November 2015, New China Water (Nanjing) entered into sale and purchase agreement with an independent party to acquire the entire issued share capital of Hainan Camda New Energy Equipment Company Limited* ("Hainan Camda") for a cash consideration of RMB15.8 million (approximately HK\$19.8 million). The acquisition was completed on 27 May 2016, on the date the control in Hainan Camda was passed to the Group, since then, the Group is interested in 100% equity interests of Hainan Camda. Details of this acquisition are set out in the Company's announcements dated 25 November 2015. Hainan Camda currently operates the Haikou City Yan Chunling Landfill gas utilization and power generation project*. Pursuant to the Haikou City Yan Chunling Landfill gas utilization project cooperation agreement* (海口市顏春嶺垃圾填埋氣沼氣利用合同書) entered into on 2 November 2007, Hainan Camda may collect and use the landfill gas in the Haikou City Yan Chunling Landfill until the volume of landfill gas generated from Haikou City Yan Chunling Landfill reduced to the level of which could not be further utilized.

Consideration transferred

	<i>HK\$'000</i>
Total consideration paid	6,900
Consideration payable	12,900
	19,800

* The English names are for identification purpose only.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

For the six months ended 30 June 2016

21. ACQUISITION OF SUBSIDIARIES (Continued)

(e) Hainan Camda New Energy Equipment Company Limited (Continued)

Consideration transferred (Continued)

Assets and liabilities at the date of acquisition recognised by the Group:

	HK\$'000
Property, plant and equipment	7,056
Other intangible assets	2,406
Deferred tax assets	12
Trade and other receivables	8,017
Bank balances and cash	3,899
Trade and other payables	(989)
Deferred tax liabilities	(601)
	19,800

The initial accounting for the above acquisition has been determined provisionally, awaiting the receipt of professional valuation in relation to the above assets.

The fair value as well as the gross contractual amounts of the trade and other receivables acquired amounted to HK\$8,017,000 at the date of acquisition.

Net cash outflow arising on acquisition

	HK\$'000
Consideration paid	(6,900)
Bank balances and cash acquired	3,899
	(3,001)

Impact of acquisition on the results of the Group

Included in the Group's profit for the six months ended 30 June 2016 is HK\$118,000 attributable to the additional business generated by Hainan Camda. Revenue included in the Group's revenue for the six months ended 30 June 2016 amount to HK\$819,000.

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

For the six months ended 30 June 2016

22. EVENTS AFTER THE END OF THE INTERIM PERIOD

Acquisition of land use right in Nanjing City, PRC

Through public tender, New China Water (Nanjing) Energy Company Limited* (新中水(南京)能源有限公司) and New China Water (Nanjing) Carbon Company Limited* (新中水(南京)碳能有限公司) (collectively known as "Nanjing Assignees"), both are indirect wholly-owned subsidiaries of the Company, had successfully bid a tender for the acquisition of land in Nanjing City on 14 April 2016. On 22 April 2016, Nanjing Assignees entered into Stated-owned Construction Land Use Right Transfer Agreement (the "Land Agreement") with Nanjing City Stated-owned Land Resources Bureau* (南京市國土資源局) ("Nanjing Assignor") for a consideration of RMB42.99 million (equivalent to HK\$50.20 million) and paid HK\$25.10 million being 50% of land cost as a deposit on 20 April 2016. The remaining balance of land cost shall be paid by 14 July 2016. The Nanjing Land is located in Nanjing City Xuanwu District Xiaolingwei Road Kirin Nanjing Science and Technology Innovation Park* (南京市玄武區孝陵衛街道麒麟科創園) 2-2(A) and 2-2 (B) ("Nanjing Land") with an area of 26,340.79 m². Pursuant to the Land Agreement, the land use right period is 50 years. The completion of properties construction is expected in July 2020. The purpose of Nanjing Land will be used as research and development center, office buildings and lease property development. The acquisition of this land use right was completed in July 2016.

* The English names are for identification purpose only.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the six month ended 30 June 2016, the Group recorded a consolidated net loss of HK\$1.86 million (the “**2016 Interim Period**”), representing a significant deterioration in financial performance as compared to the consolidated net profit of HK\$234.48 million for the six months ended 30 June 2015 (the “**2015 Interim Period**”). Despite an improvement in revenue and gross profit, an increase in other operating income and a gain on disposal of available-for-sale investments which made positive contributions to the Group’s profit, the Group recorded a consolidated net loss in the 2016 Interim Period mainly due to (i) the continue unfavourable stock market condition in Hong Kong in the first half of 2016, resulting in fair value loss of HK\$33.54 million and impairment loss of HK\$11.78 million on the Group’s investments in the 2016 Interim Period, as compared with a net gain of HK\$256.47 million on financial assets at fair value through profit or loss which was recorded in the 2015 Interim Period; and (ii) the absence of reversal of impairment loss of HK\$33.54 million on an associate in the 2016 Interim Period, which was recognised in the 2015 Interim Period.

Revenue and gross profit

The revenue and gross profit for the 2016 Interim Period were HK\$246.12 million and HK\$94.50 million respectively. These represented a growth of 8.81% in revenue and 15.71% in gross profit in comparison with the 2015 Interim Period. The increase was mainly due to certain renewable energy projects starting to provide positive contribution to the Group. During the 2016 Interim Period, the main revenue contributors were Yichun Water Industry Co., Ltd. and its subsidiaries (“**Yichun Water**”) and Yingtan Water Supply Co., Ltd. and its subsidiaries (“**Yingtan Water**”), which collectively accounted for 61.44% of the revenue and 73.77% of the gross profit. The summary of revenue and gross profit is as follows:

	Revenue				Gross Profit			
	2016		2015		2016		2015	
	HK\$'M	%	HK\$'M	%	HK\$'M	%	HK\$'M	%
Water supply business	54.57	22.17	54.17	23.95	19.79	20.94	20.39	24.97
Sewage treatment business	22.78	9.26	24.97	11.04	7.95	8.41	11.05	13.53
Construction services business	119.38	48.50	128.87	56.98	50.99	53.96	46.93	57.47
Exploitation and sale of renewable energy business	49.39	20.07	18.18	8.03	15.77	16.69	3.30	4.03
Total	246.12	100	226.19	100	94.50	100	81.67	100

Other operating income, net

In the first half of 2016, other operating income was HK\$32.64 million (2015: HK\$15.29 million). The increase of other operating income by HK\$17.34 million was mainly attributable to interest income. Other operating income comprised mainly interest income of HK\$18.11 million, repairing and handling service income of HK\$3.28 million, VAT refund of HK\$3.16 million and a gain of HK\$3.15 million on the operations services provided pursuant to the Changsha Operation Contract.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

FINANCIAL REVIEW *(Continued)*

Gain on disposal of available-for-sale investments

Included in gain on disposal of available-for-sale investments (the “**AFS**”) of HK\$35.70 million (2015: nil) was the realised gain on disposal of Fund and listed equity securities of HK\$33.99 million and HK\$1.71 million, respectively. In 2015, the Company invested HK\$80 million into an unlisted US\$ based investment fund (the “**Fund A**”). During the 2016 Interim Period, the Company sold all benefit and right of Fund A to an independent third party and recognized a gain on disposal.

Net loss on financial assets at fair value through profit or loss

Included in net loss on financial assets at fair value through profit or loss of HK\$33.54 million (2015: net gain of HK\$256.48 million) comprised HK\$28.51 million for the redemption loss on Fund, HK\$10.51 million for the realised gain on disposal of listed equity securities and HK\$15.54 million for the unrealised loss arising from the change in fair value of listed equity securities. In 2014, the Company invested HK\$75 million into an unlisted US dollar based investment funds (“**Fund B**”). During the 2016 Interim Period, the Company requested the fund manager to redeem Fund B in whole. The redemption loss of HK\$28.51 million incurred due to the redemption amount less than the net carrying value of Fund B. Owing to the persistent volatile stock market performance in first half of 2016, and a net fair value of certain listed securities fell below its costs, the fair value unrealised loss amounting to HK\$15.54 million has been resulted. The fair value of the listed securities are determined based on the quoted market bid prices available on the Stock Exchange.

Impairment loss recognised on AFS

Included in impairment loss recognised on AFS of HK\$11.78 million (2015: nil) was the loss arising from the change in fair value of listed securities classified as AFS resulting from a significant and prolonged decline in their fair values at the end of reporting period below their costs.

Selling and distribution expenses and administrative expenses

In the first half of 2016, selling and distribution costs together with administrative expenses collectively increased by HK\$12.83 million to HK\$92.33 million (2015: HK\$79.50 million). The rise was mainly due to the acquisition and establishment of new companies in the PRC which caused the increment of staff costs and associated operating expenses. These expenses mainly consisted of staff costs of HK\$52.07 million, rent and rates of HK\$2.88 million, repairs and maintenance of HK\$1.27 million and depreciation of HK\$8.11 million.

Finance costs

In the first half of 2016, the finance costs of the Group were HK\$9.16 million (2015: HK\$9.49 million). The finance costs included interest on other loans of HK\$7.59 million and the interest of HK\$1.57 million on bank loans.

Share of results from associates

The Group had three associated companies, including 35% equity interests in Jinan Hongquan Water Poduction Co., Ltd (“**Jinan Hongquan**”), 30% equity interest in Super Sino Investment Limited (“**Super Sino**”) together with its various wholly-owned subsidiaries (“**Super Sino Group**”) and 10% equity interests in Yu Jiang Hui Min Small-Sum Loan Company Limited* (“**Yu Jiang Hui Min**”). In the 2016 Interim Period, the Group shared the profit of HK\$0.03 million (2015: loss of HK\$6.32 million) which was mainly from the profit of HK\$0.264 million from Jinan Hongquan, the loss of HK\$0.104 million from Super Sino Group and the loss of HK\$0.132 million from Yu Jiang Hui Min.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

FINANCIAL REVIEW *(Continued)*

Income tax

Income tax expense represents income tax payable by the Group under relevant income tax rules and regulations where the Group operates. Income tax expense consists of current income tax and deferred income tax. Current income tax consists of PRC enterprise income tax at a rate of 25% that the PRC subsidiaries of the Group pay on their taxable income. In the first half of 2016, certain subsidiaries such as Gaoming Huaxin, Nanjing Feng Shang, Huiming Technology, Heng Yang Environmental, Changsha Huiming and Shenzhen City Greenspring are entitled to have 50% to 100% exemption of income tax. Hong Kong profits tax is calculated at 16.5% of the estimated assessable profits for our subsidiaries in Hong Kong. Deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. Income tax expense reduced by HK\$36.09 million to HK\$18.03 million (2015: HK\$54.12 million). Such decrease was primarily due to a lower taxable income in 2016. As of 30 June 2016, the Group had fulfilled all its tax obligations and did not have any tax disputes.

Loss attributable to Owners of the Company

For the period ended 30 June 2016, loss attributable to owners of the Company was approximately HK\$18.94 million (2015 Interim Period: gain attributable to owners of the Company of HK\$225.52 million), a decrease in profit of HK\$244.46 million primarily due to a net gain of HK\$256.48 million on financial assets at fair value through profit or loss which was recorded in the 2015 Interim Period.

CAPITAL STRUCTURE, LIQUIDITY, FINANCIAL POSITION AND FINANCIAL RESOURCES

As at 30 June 2016, the Group recorded cash and bank balance including cash held at financial institutions of HK\$353.72 million (compared with HK\$476.87 million as at 31 December 2015). The decrease was mainly due to the cash payments for the acquisition of subsidiaries and property, plant and equipment, as well as deposits paid for acquisition of land use rights. With the steady operating cash flows, the Group should 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 2016 were HK\$373.87 million (31 December 2015: net current assets of HK\$511.76 million). The current ratio (current assets over current liabilities) is 1.55 times as at 30 June 2016 (31 December 2015: 1.72 times).

Net asset value was HK\$1,604.51 million (31 December 2015: HK\$1,652.56 million). Net asset value per share was HK\$1.00 (2015: HK\$1.04).

The Group's consolidated non-current assets as at 30 June 2016 increased by HK\$47.93 million to HK\$1,444.04 million (31 December 2015: HK\$1,396.11 million) mainly due to the deposits of HK\$55.34 million paid for the acquisition of land use rights in Nanjing City and Huizhou City, PRC.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

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

As at 30 June 2016, the financial assets at fair value through profit or loss of the Company decreased by HK\$162.14 million to HK\$57.92 million (31 December 2015: HK\$220.06 million). The reduction was due to the drop in share price of certain equity securities listed in Hong Kong, the redemption of Fund B and the disposal of certain equity securities. As at 30 June 2016, the portfolio investment contained only equity securities listed in Hong Kong.

As at 30 June 2016, the AFS recorded at fair value of HK\$74.44 million (31 December 2015: HK\$181.42 million). The decrease was due to the impairment loss recognised on certain equity securities, the disposal of Fund A and certain equity securities. As at 30 June 2016, the portfolio investment contained only equity securities listed in Hong Kong.

Total liabilities of the Group as at 30 June 2016 were HK\$896.39 million (31 December 2015: HK\$969.10 million). Total liabilities mainly comprised of the bank and other borrowings of HK\$363.03 million (2015: HK\$416.47 million), deferred government grants of HK\$16.41 million (2015: HK\$17.26 million), trade and other payables of HK\$242.55 million (2015: HK\$306.04 million), amounts due to customers for contract works of HK\$137.34 million (2015: HK\$112.18 million), amounts due to non-controlling shareholders of subsidiaries of HK\$28.93 million (2015: HK\$27.90 million) and deferred tax liabilities of HK\$67.21 million (2015: HK\$54.58 million). Except for the following 2016 Fixed-rate New Other Loan denominated in HK\$, borrowings were mainly denominated in Renminbi.

On 14 June 2016, the Company, Guarantor and Prosper Talent Limited entered into a Subscription Agreement in respect of the issuance of other loans with an aggregate principal amount of not more than HK\$300 million at a fixed coupon interest of 10% per annum, comprising of the Series A Bond and Series B Bond. Series A Bond of HK\$200 million was issued on 14 June 2016. This 2016 Fixed-rate New Other Loan will mature in one year from the date of issuance. As at 30 June 2016, this 2016 Fixed-rate New Other Loan amounted to HK\$187.85 million and were classified as short-term loans. The Company did not request for the issuance of Series B Bond on or before 31 July 2016 and Series B Bond automatically lapsed thereafter (the “**2016 Fixed-rate New Other Loan**”). The repayment of the 2016 Fixed-rate New Other Loan is guaranteed by a substantial shareholder of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

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

As at 30 June 2016, the Group's total bank and other borrowings were HK\$363.03 million (2015: HK\$416.47 million). For the maturity profile, refer to the table below:

Debt Analysis

	30 June 2016		31 December 2015	
	HK\$'000	%	HK\$'000	%
Classified by maturity				
– repayable within one year				
Bank borrowings	35,294	9.72	29,007	6.97
Other loans	197,956	54.53	203,982	48.97
	233,250	64.25	232,989	55.94
Classified by maturity				
– repayable more than one year				
Bank borrowings	51,371	14.15	103,852	24.94
Other loans	78,405	21.60	79,627	19.12
	129,776	35.75	183,479	44.06
Total bank and other borrowings	363,026	100	416,468	100
Classified by type of loans				
Secured	75,574	20.82	123,309	29.61
Unsecured	287,452	79.18	293,159	70.39
	363,026	100	416,468	100
Classified by type of interest				
Fixed rate	272,894	75.17	259,196	62.24
Variable-rate	21,016	5.79	87,141	20.92
Interest free rate	69,116	19.04	70,131	16.84
	363,026	100	416,468	100

The Group's gearing ratio as at 30 June 2016 was 35.84% (2015: 36.97%). The ratio was calculated by dividing total liabilities of HK\$896.39 million over total assets of the Group of HK\$2,500.91 million.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

TRADE AND OTHER RECEIVABLES

As at 30 June 2016, the Group's trade and other receivables were approximately HK\$403.21 million (31 December 2015: HK\$305.61 million). These comprised of: (i) trade receivables of HK\$45.63 million, (ii) other receivables of HK\$201.67 million, (iii) loan receivable of HK\$59.76 million and (iv) deposits and prepayments of HK\$96.16 million. During the period under review, the trade receivables increased by HK\$9.95 million to HK\$45.63 million due to the trade receivable on certain renewable energy projects commencing operation in 2016 (31 December 2015: HK\$35.68 million). The average turnover period of the trade receivables as at 30 June 2016 were 31.3 days (31 December 2015: 26 days). The Group allows a credit period of 5 to 180 days to its customers. The average turnover period of the trade receivables fell within stipulated credit period. Other receivables increased by HK\$128.94 million to HK\$201.67 million (31 December 2015: HK\$72.73 million) which mainly included (i) a net receivable of HK\$85.00 million from the disposal of two Funds including Fund A; and (ii) a net redemption amount of HK\$86.72 million relating to the redemption of Fund B. Loans receivables of HK\$59.76 million (31 December 2015: HK\$57.30 million) mainly represented loans to four (2015: two) unrelated parties which bear fixed annual interest rate in the range of 7% to 36%. The deposits and prepayments substantially decreased by HK\$43.74 million to HK\$96.16 million as at 30 June 2016 due to the material procurement deposit of HK\$47.75 million being refunded in 2016. Subsequent to 30 June 2016, other receivables of HK\$21.72 million and the refunded tender deposit of HK\$7.71 million were received.

INVENTORIES

As at 30 June 2016, inventories of HK\$204.14 million (31 December 2015: HK\$204.38 million) comprised of (i) properties under development for sale of HK\$178.89 million, raw materials of HK\$24.54 million and finished goods of HK\$0.71 million. Properties under development for sale represented the construction of new commercial buildings for sale by Yingtan Xiang Rui Property Limited* (鷹潭祥瑞置業有限公司) ("**Xiang Rui Property**") at Yingtan, Jiangxi Province, the PRC, an indirect non wholly-owned subsidiary of the Company. The construction has commenced in February 2014 and is expected to be completed by the end of 2016.

TRADE AND OTHER PAYABLES

As at 30 June 2016, the Group's trade and other payables were approximately HK\$242.55 million (31 December 2015: HK\$306.04 million). The credit terms of trade payables vary according to the terms agreed with different suppliers.

CAPITAL RAISING

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

During the first half of 2016, the Group incurred capital expenditures amounting to HK\$12.36 million (first half of 2015: HK\$27.68 million) for acquisition of concession intangible assets.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

BUSINESS REVIEW

The year 2016 marks the beginning of China's 13th Five-year Plan. A number of issues, such as the imbalance of rural and urban development and an increasing shortage of resources and ecological degradation have not seen significantly improvement. These will pose challenges as well as immense opportunities in the next five years. In response to the challenges that the Chinese government has promulgated a series policy together with the increase of governmental funds in green development, focuses on promoting ecological civilization and environmentally friendly manufacturing methods. This is further proof of the Chinese government giving priority to environmental issues and also indicates the direction of the future development of China's environmental industry. To capture these potential opportunities and adhere to the Group's corporate vision "Making the World Endowed with Blue Sky, Green Earth and Clear Water", the Group has actively been exploring in the areas of environmental friendly renewable energy business through acquisition and continue to invest more funds in water supply and sewage treatment businesses.

Water supply business

There are 5 city water supply projects of the Group (including 2 water supply projects of associated companies) well spread in various provincial cities and regions across China, including Jiangxi, Shandong and Hainan (2015: 5 water supply projects). The daily aggregate water supply capacity was approximately 1.93 million tonne (including the capacity of 1.60 million tonne of two associated companies) (2015: 1.91 million tonne). The revenue and gross profit from water supply business amounted to HK\$54.57 million and HK\$19.79 million respectively, representing 22.17% and 20.94% of the Group's total revenue of HK\$246.12 million and total gross profit of HK\$94.50 million respectively. The overall gross profit ratio was 36.27% (first half of 2015: 41.17%). The rates for the water supply ranged from HK\$1.40 to HK\$2.56 per tonne.

Analysis of water supply projects on hand is as follows:

	Project name	Equity interest held by the Company (%)	Designed annual capacity of water supply (tonne)	Provincial cities in PRC	Exclusive operating right (expiry in)
1	Yichun Water	51	178,000	Jiangxi	2034
2	Yingtian Water	51	100,000	Jiangxi	2038
3	Linyi Fenghuang	60	50,000	Jiangxi	2037
4	Jinan Hongquan	35	1,500,000	Shandong	2036
5	Super Sino Group	30	100,000	Hainan	2037
	Total		1,928,000		

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS REVIEW *(Continued)*

Sewage treatment business

There are 3 sewage treatment projects of the Group located in Jiangxi, Guangdong and Shandong provinces (2015: 3 sewage treatment projects). The daily aggregate sewage disposal capacity was approximately 170,000 tonne (2015: 150,000 tonne) generating a revenue of HK\$22.78 million and gross profit of HK\$7.95 million, representing 9.26% and 8.41% of the Group's total revenue of HK\$246.12 million and total gross profit of HK\$94.50 million respectively. The gross profit ratio was 34.90% (first half of 2015: 44.25%). The decrease in gross profit ratio was due to VAT tax paid in the first half of 2016 whereas VAT tax was exempted in 2015. The rates for sewage treatment ranged from HK\$0.65 to HK\$1.30 per tonne.

Analysis of sewage treatment projects on hand is as follows:

Project name	Equity interest held by the Company (%)	Designed annual sewage disposal capacity (tonne)	Provincial cities in PRC	Exclusive operating right (expiry in)
1 Jining Haiyuan	70	30,000	Shandong	2036
2 Gaoming Huaxin	70	20,000	Guangdong	2033
3 Yichun Fangke	54.33	120,000	Jiangxi	2031
Total		170,000		

Construction services for water supply and sewage treatment infrastructure

Construction services included water meter installation, infrastructure construction and pipeline construction and repair. These were the Group's major sources of revenue and gross profit contributing HK\$119.38 million and HK\$50.99 million respectively, representing 48.50% and 53.96% of the Group's total revenue and total gross profit respectively. The overall gross profit ratio was 42.71% (first half of 2015: 36.42%).

Exploitation and sale of renewable energy business

As at 30 June 2016, the Group has successfully secured 15 biogas power generation projects which are located in various provincial cities across China including Jiangsu, Hunan, Shaanxi, Anhui, Hainan, Chongqing, and Guangdong. These projects add a total of designed annual household waste processing capacity of 8.26 million tonne and could extract biogas from the household waste of 355.54 million m³ annually which in turn could annually generate 192.98 million kilowatt-hour of on-grid electricity and 23.98 million m³ of compressed natural gas ("CNG"). The revenue and gross profit generating from exploitation and sale of renewable energy business amounted to HK\$49.39 million and HK\$15.77 million respectively, representing 20.07% and 16.69% of the Group's total revenue of HK\$246.12 million and total gross profit of HK\$94.50 million respectively, which mainly contributed from Nanjing Jiaozishan project, ZhuZhou Biogas project, Shenzhen Pingshan project, Shenzhen Xiaping Landfill Site project, Qingshan Landfill Site project and Chongqing Camda project from selling electricity to provincial power grid companies and receiving tariff adjustment from relevant government authorities as well as selling CNG to external customers. Comparing with the 2015 Interim Period, the revenue and gross profit increased by HK\$31.21 million and HK\$12.47 million respectively. This was because 12 projects have operation in the first half of 2016 (2015: 3 projects). The overall gross profit ratio was 31.93% (first half of 2015: 18.15%), the average electricity rate was HK\$0.38 per kilowatt-hour and the average CNG rate was HK\$1.98 per m³.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

BUSINESS REVIEW (Continued)

Exploitation and sale of renewable energy business (Continued)

Analysis of renewable energy projects on hand is as follows:

	Project name	note	Provincial cities in PRC	Business mode	Equity interest held by Company (%)	Annual designed household waste processing capacity (tonne)	Estimated annual biogas output (m ³)	Estimated annual On-grid electricity (kilowatt-hour)	Estimated annual CNG (m ³)	Actual/Expected Commencement date of operation	Exclusive right to collect landfill gas expiry in
1	Nanjing Jiaozishan		Jiangsu	Power generation	100	550,000	9,500,000	15,500,000	-	October 2013	June 2025
2	ZhuZhou Biogas		Hunan	Power generation	100	365,000	13,500,000	16,600,000	-	November 2014	October 2023
3	Shenzhen Pingshan		Guangdong	Power generation	100	237,300	9,000,000	17,000,000	-	January 2016	September 2024
4	Baoji	c	Shaanxi	Power generation	100	160,000	2,550,000	5,000,000	-	May 2016	April 2028
5	Chenzhou Environmental	c	Hunan	Power generation	100	219,000	2,000,000	2,800,000	-	March 2016	February 2029
6	Huayin Heng Yang	c	Hunan	Power generation	100	360,000	6,500,000	11,000,000	-	March 2016	October 2029
7	Chongqing Camda	c	Chongqing	Power generation	100	1,200,000	23,870,000	40,580,000	-	May 2016	May 2028
8	Hainan Camda	c	Hainan	Power generation	100	201,000	12,800,000	17,000,000	-	May 2016	Note 1
9	Wuzhou Landfill		Guangxi	Power generation	100	187,200	3,200,000	1,500,000	-	September 2016	September 2022
10	Changsha Operation Contract*		Hunan	Power generation	-			66,000,000	-	May 2014	
11	Changsha Qiaoyi Landfill Site*		Hunan	CNG	91	2,370,000	80,000,000	-	2,000,000	October 2016	October 2039
12	Shenzhen Xiaping Landfill Site		Guangdong	CNG	88	1,830,000	180,000,000	-	15,000,000	July 2015	April 2030
13	Liuyang Biogas		Hunan	CNG	100	201,000	1,550,000	-	880,000	October 2016	October 2038
14	Qingshan Landfill Site		Guangdong	CNG	100	311,100	11,000,000	-	6,000,000	May 2016	July 2024
15	He County	c	Anhui	CNG	100	73,000	70,000	-	100,000	October 2016	February 2036
						8,264,600	355,540,000	192,980,000	23,980,000		

* Projects of Changsha Operation Contract and Changsha Qiaoyi Landfill Site are sharing household waste resources in the same site in Changsha.

c The acquisition of these renewable energy projects have been completed during the 2016 interim period. Details for the acquisition of these subsidiaries are set out in Note 21 of this interim report.

Note 1: The collection period of landfill gas is until the volume of landfill gas generated from Haikou City Yan Chunling Landfill reduced to the level of which could not be further utilized.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

ACQUISITION OF RENEWABLE ENERGY PROJECTS

In 2015, the Group have successfully signed sales and purchases agreements to acquire the following renewable energy projects. As at 30 June 2016, as the conditions for completion have not been fulfilled, the acquisition for the following projects have not been completed:

	Project name	Provincial cities in PRC	Business mode	Equity interest held by Company (%)	Annual designed household waste processing capacity (tonne)	Estimated annual biogas output (m ³)	Estimated annual On-grid electricity (kilowatt-hour)
1	Chengdu City	I Sichuan	Power generation	49	187,200	60,000,000	158,080,000
2	Shenzhen Weimin Ecological	II Guangdong	Garbage sorting	55	840,000	–	–
					1,027,200	60,000,000	158,080,000

(I) Chengdu City Project

On 15 September 2015, New China Water (Nanjing) enter into Sale and Purchase Agreements with 韓國(株)漢陽ENG# (Hanyang ENG Co., Ltd.*), RTS股份有限公司# (Re-Tech Solution Co., Ltd.), 韓國產業銀行# (Korea Development Bank*) and 首都圈垃圾填埋場管理公社# (Sudokwon Landfill Site Management Corp.) respectively, to acquire in aggregate of 49% equity interest of Chengdu City Green State Renewable Energy Co., Limited (成都市綠州新再生能源有限責任公司) (“Chengdu City Project”) at an aggregate consideration of approximately RMB50.20 million. Chengdu City Project owns an operation right to operate a landfill gas power generator plant in Changan landfill site, Sichuan Province, the PRC. The landfill gas power generator plant is still under construction. Upon the completion of the construction of its landfill gas power generator plant, Chengdu City Project will principally engage in (i) the collection, purification, power generation and the development of Clean Development Mechanism projects regarding the landfill gases generated from phase one and phase two of Changan landfill site; (ii) the sales of electricity; and (iii) the trading of carbon credits derive from emission reduction by landfill gases. Up to the date of this report, as the conditions for completion have not been fulfilled, the Group has not paid any consideration and the acquisition is not yet completed.

* The English names are for identification purpose only.

Chinese name(s) as stated in the relevant PRC government filings.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

ACQUISITION OF RENEWABLE ENERGY PROJECTS *(Continued)*

(II) Shenzhen Weimin Ecological Project

On 22 December 2015, New China Water (Nanjing), Shenzhen Weimin Environmental Protection Technological R&D Company Limited* (深圳市為民環保科技開發有限公司) and Shenzhen Weimin Ecological Technology Company Limited* (深圳市為民生態技術有限公司) entered into the Subscription and Capital Injection Agreement, pursuant to which New China Water (Nanjing) has conditionally agreed to subscribe for and inject RMB40 million into Shenzhen Weimin Ecological ("Shenzhen Weimin Ecological Project"). New China Water (Nanjing) will hold 55% equity interest of Shenzhen Weimin Ecological upon Completion. Shenzhen Weimin Ecological Project is engaged in technology development of environmental protection equipment; municipal solid waste cleaning and collection services; waste gas and waste water treatment; development of biogas purification technology; and comprehensive treatment of municipal solid waste. Shenzhen Weimin Ecological Project had entered into agreements with the local government to invest, operate and provide waste treatment services for a build-operate-own project of a landfill plant in a landfill located Longgang District, Shenzhen, the PRC until 2021. Up to the date of this report, as the conditions for completion have not been fulfilled, the Group has not paid any consideration and the acquisition is not yet completed.

OTHER EVENTS DURING THE PERIOD UNDER REVIEW

• He County Project

On 4 February 2016, New China Water (Nanjing) and He County City Bureau* (和縣城市管理局) entered into an innocuous deodorization and resource recycling utilization agreement ("**Contract**") for the garbage gas at He County Household Garbage Landfill Site ("**He County Landfill Site**") in Xi Fu Town Ji Long Village* (西埠鎮雞籠山村), Anhui Province, the PRC ("**He County Project**"). He County City Bureau has engaged New China Water (Nanjing) to collect and conduct innocuous deodorization treatment for all garbage gas generated from He County Landfill Site. Pursuant to the Contract, if the daily household garbage in He County Landfill Site is more than 500 tonne per day ("**Guaranteed Level**"), He County City Bureau shall entitle to receive 10% net profit for resource utilization fee from New China Water (Nanjing). If less than the Guaranteed Level, no resource utilization fee is required to pay. The term of this Contract is 20 years until 23 February 2036. New China Water (Nanjing) is required to form a project company with minimum registered capital of HK\$30 million for He County Project. The He County Project company, New China Water (Hexian) Recycling Resources Technology Limited, was established on 5 May 2016.

* The English names are for identification purpose only.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

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

- **Acquisition of land use right in Nanjing City, PRC**

Through public tender, New China Water (Nanjing) Energy Company Limited* (新中水(南京)能源有限公司) and New China Water (Nanjing) Carbon Company Limited* (新中水(南京)碳能有限公司) (collectively known as “**Nanjing Assignees**”), both are indirect wholly-owned subsidiaries of the Company, had successfully bid a tender for the acquisition of land in Nanjing City on 14 April 2016. On 22 April 2016, Nanjing Assignees entered into Stated-owned Construction Land Use Right Transfer Agreement (the “**Land Agreement**”) with Nanjing City Stated-owned Land Resources Bureau* (南京市國土資源局) (“**Nanjing Assignor**”) for a consideration of RMB42.99 million (equivalent to HK\$50.20 million) and paid HK\$25.10 million being 50% of land cost as a deposit on 20 April 2016. The remaining balance of land cost shall be paid by 14 July 2016. The Nanjing Land is located in Nanjing City Xuanwu District Xiaolingwei Road Kirin Nanjing Science and Technology Innovation Park* (南京市玄武區孝陵衛街道麒麟科創園) 2-2(A) and 2-2(B) (“**Nanjing Land**”) with an area of 26,340.79 m². Pursuant to the Land Agreement, the land use right period is 50 years. The completion of properties construction is expected in July 2020. The Nanjing Land is planned to use as research and development center, office buildings and property development. The acquisition of this land use right was completed in July 2016.

- **Acquisition of land use right in Huizhou City, PRC**

Through the public tender, Huizhou Swan Heng Chang Property Development Company Limited* (惠州鴻鵠恒昌置業有限公司) (the “**Huizhou Assignee**”), an indirect wholly-owned subsidiary of the Company, had successfully bid the tender for the acquisition of land in Huizhou City on 14 June 2016. On 30 June 2016, Huizhou Assignee entered into Huizhou City Stated-owned Construction Land Use Right Transaction Confirmation (the “**Land Confirmation**”) with Huizhou City Stated-owned Land Resources Bureau* (惠州市國土資源局) (“**Huizhou Assignor**”) for a consideration of RMB25.90 million (equivalent to HK\$30.24 million) (“**Consideration**”) and fully paid the Consideration. The Huizhou Land is located in Huizhou City Huicheng District Sandong Town, Huinan Road* (惠州市惠城區三棟鎮惠南大道) with net area of 30,544.2 m². Pursuant to the Land Confirmation, the land use right period is 50 years. The Huizhou Land is planned to use for research and development center, office buildings and property development. Up to the date of this report, the acquisition of this land use right is not yet completed.

OTHER EVENT AFTER THE PERIOD UNDER REVIEW

Adjustment to water tariff

The Yingtan Municipal Commission of Development and Reform, Jiangxi Province, the People’s Republic of China approved the increase in water tariffs according to the newly adopted multi-step water price system in Yingtan City. The existing water tariff of RMB1.25 to RMB6.00 will be increased to RMB1.40 to RMB7.00 with effect from 1 July 2016.

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.

* The English names are for identification purpose only.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

CAPITAL COMMITMENTS

As at 30 June 2016, the Group has the capital commitments contracted but not provided for acquisition of property, plant and equipment approximately HK\$138.14 million (31 December 2015: HK\$110.55 million) and properties under development in relation to development costs of existing projects of HK\$7.90 million (31 December 2015: HK\$9.27 million).

CONTINGENT LIABILITIES

During the 2016 Interim Period, the Company issued guarantees to banks in respect of bank borrowings made by two subsidiaries which expire on 24 May 2018 and 26 September 2019. As at 30 June 2016, the maximum liability of the Company relating to the aforesaid guarantee issued is the outstanding amount of the bank borrowings of the subsidiaries of HK\$38.53 million (31 December 2015: HK\$47.75 million).

PLEDGE OF ASSETS

The Group's bank loans and other loans of HK\$75.57 million in total as at 30 June 2016 (2015: HK\$123.31 million) were secured by charges over:

- (i) contractual rights to receive revenue generated by certain of our subsidiaries; and
- (ii) the Company's equity interests in Shenzhen City Li Sai Industrial Development Limited*, Hunan Huiming Environmental Technology Limited*, Datang Huayin Chenzhou Environmental Power Company Limited* and Datang Huayin Heng Yang Environmental Power Company Limited*.

NO MATERIAL CHANGE

Save as disclosed above, during the six months ended 30 June 2016, 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 2015.

EMPLOYEES

As at 30 June 2016, excluding jointly controlled entities and associates, the Group had 1,204 (30 June 2015: 1,147) employees, of which 13 (30 June 2015: 10) are Hong Kong employees. During the 2016 Interim Period, total employee benefit expenses, including directors' emoluments and provident funds, was HK\$68.18 million (2015 Interim Period: HK\$54.67 million). Several renewable energy projects have commenced their operations in 2016 which caused the staff cost and the related staff benefit expenses to increase. 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 2016 interim period, all of the Hong Kong employees have participated in the Mandatory Provident Fund Scheme, and a similar benefit scheme is offered to employees in Mainland China. In addition, the Group encourage employees' participation in continuing training programmes, seminars and e-learning through which their career, knowledge and technical skills can be enhanced with the development of individual potentials.

* The English names are for identification purpose only.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

PROSPECTS

2016 represents the onset of the Thirteenth Five-year Plan as well as a key stage of the Group's development. In the first half of the year, while Chinese economy was still facing considerable downward pressure, the Group not only swiftly grasped the industry trend and flexibly adapted to the changing business environment, but also proactively consolidated favourable resources from various parties, laying a solid foundation for the business to take a quantum leap in the future.

1. Water business continued to develop in a stable manner with an optimistic prospect.
 - i. As the Group's main businesses, the water supply and sewage treatment businesses of our subsidiaries remained fairly stable in terms of revenues and profit when compared with the corresponding period of last year. Many of our subsidiaries achieved water tariff adjustments, among which our subsidiary Yingtan Water adopted an innovative investment model while vigorously expanding its water supply engineering business, leading to stable business development. As the local government has approved the water tariff adjustment scheme, with new water tariffs taking with effect from 1 July 2016, the water tariffs of both household and non-household usage have increased. As such, the profit of Yingtan Water is expected to rise this year.
2. Renewable energy business continued to innovate, fostering the scaling up of industry chain and profit maximization.
 - i. In 2016, we successfully acquired or commenced numerous projects including marsh gas purification, marsh gas power generation and garbage sorting, and the investment projects are taking shape. In this sector, the power generation project has achieved a remarkable performance, however the marsh gas purification project, impacted by oversupply in natural gas and the persistent falling of market prices of CNG in China, made the gross profit margin of the Group's solid waste treatment sector below our expectation in the first half of 2016 and is expected the related profit to be dropped further. To ensure its sustainable and healthy development, we flexibly adjusted the business operations by strengthening the sales efforts of natural gas while increasing the grid-generation of power units to take advantage of the country's power generation subsidy, with an aim to optimise economic benefits.
 - ii. The Group strengthened technological innovation and formed an advanced large-scale industry chain. On the basis of our existing cooperation with Chinese Academy of Engineering academician Chen Yong, Changzhou University's Institute of Urban and Rural Mines and Guangzhou Institute of Energy Conversion of the Chinese Academy of Sciences, the Group signed a "Cooperation Agreement on Polygeneration and Efficient Employment of Technologies in Power Generation from Landfill Gas (Marsh Gas) and Biomass Gasification" with Professor Zhang Qisheng, academician of Chinese Academy of Engineering. The establishment of the academician work station expanded our horizons, and our business model also changed from the single domestic waste disposal mode to the marsh mass gasification polygeneration field, developing an optimised urban waste recycling roadmap from the perspective of industrialisation and profitability model, thereby improving the core competence of the Group and maintaining its leading position in technologies.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

PROSPECTS *(Continued)*

3. In the first half of 2016, the Group has acquired two land use rights in Nanjing City and Huizhou City, PRC which are planned to use for research and development center, office buildings and property development including property sale or/and property rental. We expect that the property development will be contributed a positive and stable stream of income to the Group.
4. The Group established an International Business Department to keep a close track of overseas markets as well as participating in inspection and investigation of environmental protection projects in Southeast Asia. Currently, the Group successfully enrolled in the Mandatory Producer Responsibility Scheme for glass containers under Hong Kong's Environmental Protection Department. In addition, we partnered with Hong Kong's Nano and Advanced Materials Institute to carry out R&D cooperation on recycling waste glass bottles, separating different colors of glass sheets and reproducing products such as glass mosaics and tiles in Hong Kong with considerable interim progress. We are confident in breaking new ground for solid waste disposal in Hong Kong.
5. To ensure the sustainable development of the Group and fulfil the capital demands during the development, the Group took the initiative to expand its financing channels, enhanced its funding capability and entered into financing agreements with various domestic and international commercial banks to make well preparation for the future development of our projects. The Group managed to maintain a healthy financial condition with a reasonable gearing ratio.

We will devote ourselves to improve the living environment of urban citizens and strive to meet mankind's desire for clean water and a refreshing environment, creating a bigger stage for our corporate environmental protection dream of "Making the World Endowed with Blue Sky, Green Earth and Clear Water". Meanwhile, benefit from the favourable policies, introduced by the Chinese government relating to the water conservation, protection of ecosystem preservation and infrastructure, the Group's business is well positioned for steady improvement in the future.

SUPPLEMENTARY INFORMATION

INTERIM DIVIDENDS

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2016 (2015: Nil).

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 30 June 2016, 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	Percentage of the issued share capital of the Company
Mr. Wang De Yin	Beneficial owner	5,000,000 (L)	0.31%
Mr. Lin Yue Hui	Beneficial owner	5,000,000 (L)	0.31%
Mr. Liu Feng	Beneficial owner	5,000,000 (L)	0.31%
Ms. Deng Xiao Ting	Beneficial owner	3,000,000 (L)	0.19%
Ms. Chu Yin Yin, Georgiana	Beneficial owner	743,200 (L)	0.05%

For the purpose of this section, the shareholding percentage in the Company is calculated on the basis of 1,596,539,766 shares in issue as at 30 June 2016.

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

Save as disclosed above, as at 30 June 2016, 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 2016, the following persons and entities, other than a Director or chief executive of the Company disclosed under the section “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 of the Company held	Approximate percentage of the issued share capital of the Company
Deng Jun Jie	Interest of controlled corporation	312,796,000 (L) (Note 1)	19.59%
Honghu Capital Co. Ltd	Beneficial owner	312,796,000 (L) (Note 1)	19.59%
Yue Xiu Great China Fixed Income Fund VI LP	Beneficial owner	79,872,000 (L) (Note 2)	5.00%
Yue Xiu Investment Management Limited	Interest of controlled corporation	79,872,000 (L) (Note 2)	5.00%
Yue Xiu Investment Consultants Limited	Interest of controlled corporation	79,872,000 (L) (Note 2)	5.00%
Yue Xiu Securities Holdings Limited	Interest of controlled corporation	79,872,000 (L) (Note 2)	5.00%
Yue Xiu Enterprise (Holdings) Limited	Interest of controlled corporation	79,872,000 (L) (Note 2)	5.00%
Guangzhou Yuexiu Holdings Limited	Interest of controlled corporation	79,872,000 (L) (Note 2)	5.00%

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: Yue Xiu Great China Fixed Income Fund VI LP is managed by Yue Xiu Investment Management Limited (越秀投資管理有限公司), which is an indirect wholly-owned subsidiary of Yue Xiu Investment Consultants Limited (越秀投資諮詢有限公司), which is an indirect wholly-owned subsidiary of Yue Xiu Securities Holdings Limited (越秀證券控股有限公司), which is an indirect wholly-owned subsidiary of Yue Xiu Enterprises (Holdings) Limited (越秀企業(集團)有限公司), which is in turn an indirect wholly-owned subsidiary of Guangzhou Yuexiu Holdings Limited (廣州越秀集團有限公司), a state-owned enterprise in the PRC.

SUPPLEMENTARY INFORMATION *(Continued)*

Note 3: The shareholding percentage in the Company is calculated on the basis of 1,596,539,766 Shares in issue as at 30 June 2016.

Note 4: The letter "L" denotes a long position in Shares.

SHARE CAPITAL

The Company's issued and fully paid share capital as at 30 June 2016 amounted to HK\$798,270,000 divided into 1,596,539,766 ordinary shares of HK\$0.50 each.

DIRECTORS' RIGHTS TO ACQUIRES OR DEBENTURES

Save as disclosed under the heading "Share option scheme" below, at no time during the Interim 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 (the "**2011 AGM**") of the Company held on 3 June 2011, the shareholders of the Company approved the adoption of the Company's New Share Option Scheme (the "**Scheme**"). The refreshment of the scheme mandate limit for the Scheme was approved by the shareholders at the 2016 AGM held on 13 June 2016 (the "**2016 AGM**"), based on 1,596,539,766 Shares in issue. The Company will be allowed to grant share options under the Scheme for subscription of up to a total of 159,653,976 Shares, representing 10% of the Shares in issue as at the date of the 2016 AGM. From the date of the Scheme being adopted up to 30 June 2016, no share options have been granted. The purpose of the Scheme is to enable the Company to grant share options to selected Participants as incentive and/or rewards for their contribution and support to the Group and any Invested Entity and/or to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any Invested Entity. The Scheme will remain in force for 10 years and expire on 2 June 2021.

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.

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 this report.

SUPPLEMENTARY INFORMATION *(Continued)*

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Group recognises 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 2016 except for the following deviations:

- Pursuant to the code provision of A.2.1 of the CG Code, the roles of the chairman and chief executive officer of the Company should be separate and should not be performed by the same individual. On 19 July 2012, Mr. Wang De Yin ("**Mr. Wang**"), currently is the Chairman of the Company, was appointed as a Chief Executive Officer of the Company ("**CEO**"). The Board has evaluated the current situation of the Group and taken into account of the experience and past performance of Mr. Wang, the Board was of the opinion that it was appropriate and in the best interest of the Company at the present stage for vesting the roles of the Chairman and the CEO of the Company in the same person as it helps to facilitates the execution of the Group's business strategies and maximises 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; and
- 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 ("**INEDs**") of the Company were not appointed for a specific term but they are subject to retirement by rotation and re-election at annual general meetings of the Company in line with the Company's Article of Association.

The Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code.

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 all Directors and Group's senior management and also persons who are privy to price sensitive information of the Group. Having made specific enquiry of all Directors and senior management, the Board confirmed that they had complied with the Model Code regarding directors' securities transactions throughout the accounting period and up to the date of this report.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2016.

SUPPLEMENTARY INFORMATION *(Continued)***AUDIT COMMITTEE**

The Audit Committee comprises 3 INEDs of the Company including Mr. Wong Siu Keung, Joe (Committee Chairman), Mr. Guo Chao Tian and Mr. Li Jian Jun, 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 2016. 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 INEDs of the Company and 1 executive Director of the Company. It is mainly 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 INEDs 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 INEDs. 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 4 senior management 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.

CHANGES IN INFORMATION OF DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, changes in information of Directors are set out as follows:

Mr. Wong Siu Keung, Joe, an INED of the Company, was appointed as an INED of Worldgate Global Logistics Limited (Stock code: 8292) with effect from 17 June 2016. The shares of this company is listed on the Growth Enterprise Market of the Stock Exchange. Save as disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

PUBLICATION OF THE INTERIM RESULTS AND REPORT

The interim report of the Company for 2016 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) and the Stock Exchange (<http://www.hkex.com.hk>).

SUPPLEMENTARY INFORMATION *(Continued)*

BOARD OF DIRECTORS

The Board of the Company as at the date of this 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 INEDs.

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, 29 August 2016