



中國城市基礎設施集團有限公司

China City Infrastructure Group Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2349

2017 Interim Report



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Li Chao Bo (*Chairman*)
Ms. Wang Wenxia (*Vice Chairman and Chief Executive Officer*)
Mr. Ji Jiaming
(appointed on 21 July 2017)

Non-executive Director

Mr. Zhang Guiqing
(appointed on 16 August 2017)

Independent non-executive Directors

Mr. Wang Jian
Mr. Ng Chi Ho, Dennis
(appointed on 16 March 2017)
Mr. Ji Yehong
(appointed on 5 June 2017)
Mr. Wong Chi Ming
(resigned on 16 March 2017)
Mr. Chan Pok Hiu
(resigned on 5 June 2017)

AUDIT COMMITTEE

Mr. Ng Chi Ho, Dennis
(*Committee Chairman*)
(appointed on 16 March 2017)
Mr. Wong Chi Ming (*Committee Chairman*)
(resigned on 16 March 2017)
Mr. Wang Jian
Mr. Ji Yehong
(appointed on 5 June 2017)
Mr. Chan Pok Hiu
(resigned on 5 June 2017)

REMUNERATION COMMITTEE

Mr. Ji Yehong (*Committee Chairman*)
(appointed on 5 June 2017)
Mr. Chan Pok Hiu (*Committee Chairman*)
(resigned on 5 June 2017)
Mr. Wang Jian
Mr. Ng Chi Ho, Dennis
(appointed on 16 March 2017)
Mr. Wong Chi Ming
(resigned on 16 March 2017)

NOMINATION COMMITTEE

Mr. Ji Yehong (*Committee Chairman*)
(appointed on 5 June 2017)
Mr. Chan Pok Hiu (*Committee Chairman*)
(resigned on 5 June 2017)
Mr. Wang Jian
Mr. Ng Chi Ho, Dennis
(appointed on 16 March 2017)
Mr. Wong Chi Ming
(resigned on 16 March 2017)

COMPANY SECRETARY

Li Chi Chung

AUTHORISED REPRESENTATIVES

Mr. Li Chao Bo (*Chairman*)
Ms. Wang Wenxia

AUDITOR

HLM CPA Limited
Certified Public Accountants

WEBSITE

www.city-infrastructure.com

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

CORPORATE INFORMATION

PRINCIPAL BANKERS

Chiyu Banking Corporation Limited
No. 78 Des Voeux Road Central
Hong Kong

DBS Bank (Hong Kong) Limited
16th Floor, The Center
No. 99 Queen's Road Central, Hong Kong

The Hong Kong and Shanghai Banking
Corporation Limited
Level 10, HSBC Main Building
No. 1 Queen's Road Central, Hong Kong

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 6208, 62nd Floor
Central Plaza
18 Harbour Road
Wanchai, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
Level 22, Hopewell Centre
No. 183 Queen's Road East
Hong Kong

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2017

	Notes	Six months ended 30 June	
		2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)
Revenue	3	230,139	108,616
Cost of sales		(190,345)	(97,856)
Gross profit		39,794	10,760
Fair value (loss) gain in respect of investment properties revaluation		(54,278)	8,333
Other operating income		3,418	6,450
Other operating expenses		(95)	(13,294)
Selling and distribution expenses		(33,292)	(12,569)
Administrative expenses		(48,127)	(55,854)
Finance costs	4	(82,446)	(128,170)
Loss before tax		(175,026)	(184,344)
Income tax credit (expense)	5	1,371	(4,185)
Loss for the period	6	(173,655)	(188,529)
Loss for the period attributable to:			
Loss for the period attributable to owners of the Company		(171,793)	(186,463)
Loss for the period attributable to non-controlling interests		(1,862)	(2,066)
Loss for the period		(173,655)	(188,529)
		HK Cents	HK Cents
Loss per share	8		
– Basic		(7.19)	(9.10)
– Diluted		(7.19)	(9.10)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Loss for the period	(173,655)	(188,529)
Other comprehensive expense for the period: Items that may be subsequently reclassified to profit or loss:		
Exchange differences arising on translating of foreign operation	19,333	(22,174)
Total comprehensive expense for the period (net of tax)	(154,322)	(210,703)
Total comprehensive expense attributable to:		
Owners of the Company	(152,757)	(208,406)
Non-controlling interests	(1,565)	(2,297)
	(154,322)	(210,703)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017

	Notes	30 June 2017 HK\$'000 (unaudited)	31 December 2016 HK\$'000 (audited)
ASSETS			
Non-current assets			
Property, plant and equipment	9	193,643	193,413
Investment properties	9	2,034,483	2,028,090
Goodwill		169,342	168,516
Intangible assets	10	120,737	120,571
Interest in an associate		–	129,999
Deposit paid for acquisition of a subsidiary	15	12,889	13,422
		2,531,094	2,654,011
Current assets			
Inventories		8,077	4,347
Inventory of properties		1,611,301	1,714,654
Trade and other receivables	11	347,787	469,069
Pledged bank deposits		13,793	13,483
Bank balances and cash		136,208	58,890
		2,117,166	2,260,443
TOTAL ASSETS		4,648,260	4,914,454
EQUITY AND LIABILITIES			
EQUITY			
Capital and reserves			
Share capital	12	286,659	230,659
Reserves		1,206,651	1,140,540
Equity attributable to owners of the Company		1,493,310	1,371,199
Non-controlling interests		128,072	129,637
TOTAL EQUITY		1,621,382	1,500,836

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017

	Notes	30 June 2017 HK\$'000 (unaudited)	31 December 2016 HK\$'000 (audited)
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities		394,340	404,945
Borrowings – due after one year	13	244,782	312,697
Amounts due to related parties – due after one year		662,220	648,017
Convertible notes – due after one year	13	19,072	60,020
Deposits received for sale and lease of properties – non-current portion		1,494	1,461
		1,321,908	1,427,140
Current liabilities			
Trade and other payables	14	556,858	584,764
Deposits received for sale and lease of properties – current portion		123,516	83,548
Tax payable		111,386	130,747
Amounts due to non-controlling shareholders of subsidiaries		1,244	1,221
Amounts due to related parties – due within one year		420,969	315,966
Borrowings – due within one year	13	409,631	791,441
Convertible notes – due within one year	13	80,133	78,466
Deferred income – current portion		1,233	325
		1,704,970	1,986,478
TOTAL LIABILITIES		3,026,878	3,413,618
TOTAL EQUITY AND LIABILITIES		4,648,260	4,914,454
NET CURRENT ASSETS		412,196	273,965
TOTAL ASSETS LESS CURRENT LIABILITIES		2,943,290	2,927,976

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Share capital		Convertible notes equity reserve	Share options reserve	Special reserve	Capital reserve	PRC statutory reserve		Translation reserve	Accumulated losses	Attributable to owners of the Company	Non-controlling interests	Total
	HK\$'000	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 2017 (audited)	230,659	1,404,662	42,534	31,507	(184)	45,224	25,565	(95,060)	(313,708)	1,371,199	129,637	1,500,836	
Loss for the period	-	-	-	-	-	-	-	-	(171,793)	(171,793)	(1,862)	(173,655)	
Translation exchange differences	-	-	-	-	-	-	-	19,036	-	19,036	297	19,333	
Total comprehensive expenses for the period	-	-	-	-	-	-	-	19,036	(171,793)	(152,757)	(1,565)	(154,322)	
Issue of shares	46,000	184,000	-	-	-	-	-	-	-	230,000	-	230,000	
Issue of shares on conversion of convertible notes	10,000	40,000	(8,474)	-	-	-	-	-	-	41,526	-	41,526	
Share options lapsed	-	-	-	(1,641)	-	-	-	-	1,641	-	-	-	
Disposal of an associate	-	2,084	-	-	-	-	-	1,258	-	3,342	-	3,342	
As 30 June 2017 (unaudited)	286,659	1,630,746	34,060	29,866	(184)	45,224	25,565	(74,766)	(483,860)	1,493,310	128,072	1,621,382	

For the six months ended 30 June 2016

	Share capital		Convertible notes equity reserve	Share options reserve	Special reserve	Capital reserve	PRC statutory reserve		Translation reserve	Accumulated profits/(losses)	Attributable to owners of the Company	Non-controlling interests	Total
	HK\$'000	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)	204,459	1,300,114	25,434	90,478	(184)	45,224	25,565	(13,812)	79,175	1,756,453	142,363	1,898,816	
Loss for the period	-	-	-	-	-	-	-	-	(186,463)	(186,463)	(2,066)	(188,529)	
Translation exchange differences	-	-	-	-	-	-	-	(21,943)	-	(21,943)	(231)	(22,174)	
Total comprehensive expenses for the period	-	-	-	-	-	-	-	(21,943)	(186,463)	(208,406)	(2,297)	(210,703)	
Issue of shares	26,200	104,800	-	-	-	-	-	-	-	131,000	-	131,000	
Share issue expenses	-	(252)	-	-	-	-	-	-	-	(252)	-	(252)	
Share options lapsed	-	-	-	(37,773)	-	-	-	-	37,773	-	-	-	
Recognition of equity component of convertible notes	-	-	17,100	-	-	-	-	-	-	17,100	-	17,100	
Deemed disposal of a subsidiary	-	-	-	-	-	-	-	1,205	-	1,205	(7,930)	(6,725)	
Disposal of a subsidiary	-	-	-	-	-	-	-	-	-	-	(2,109)	(2,109)	
As 30 June 2016 (unaudited)	230,659	1,404,662	42,534	52,705	(184)	45,224	25,565	(34,550)	(69,515)	1,697,100	130,027	1,827,127	

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2017

Six months ended 30 June

	2017 <i>HK\$'000</i> (unaudited)	2016 <i>HK\$'000</i> (unaudited)
NET CASH GENERATED FROM (USED IN) OPERATING ACTIVITIES	125,934	(280,475)
NET CASH GENERATED FROM (USED IN) INVESTING ACTIVITIES	2,270	(82)
NET CASH (USED IN) GENERATED FROM FINANCING ACTIVITIES	(38,965)	428,941
NET INCREASE IN CASH AND CASH EQUIVALENTS	89,239	148,384
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(11,611)	(1,419)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	72,373	104,132
CASH AND CASH EQUIVALENTS AT END OF PERIOD	150,001	251,097
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	136,208	236,979
Pledged bank deposits	13,793	14,118
	150,001	251,097

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2016, as described in those annual financial statements.

In the current interim period, the Group has applied the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA for the first time:

Amendments to HKAS 7	Disclosure initiative
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses

The application of these new and revised HKFRSs did not have any material impact on the Group’s condensed consolidated interim financial information.

The Group has not early adopted any standard, interpretation or amendment that has been issued but not yet effective.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

2. PRINCIPAL ACCOUNTING POLICIES (continued)

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2014-2016 Cycle ⁴
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions ¹
Amendments to HKFRS 4	Applying HKFRS 9, Financial Instruments with HKFRS 4, Insurance Contracts ¹
HKFRS 9 (2014)	Financial Instruments ¹
Amendments to HKFRS 10 and HKAS 28 (2011)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
HKFRS 15	Revenue from Contracts with Customers and the related Amendments ¹
HKFRS 16	Leases ²

¹ Effective for annual periods beginning on or after 1 January 2018, earlier application is permitted.

² Effective for annual periods beginning on or after 1 January 2019, earlier application is permitted.

³ Effective for annual periods beginning on or after a date to be determined.

⁴ Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate.

The Group has not early adopted the new and amendments HKFRSs, which have been issued but are not yet effective for the current period. The Group has commenced an assessment of the related impact, but is not yet in a position to state whether any substantial changes to the Group's accounting policies and presentation of the financial information will be resulted.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

3. SEGMENT INFORMATION

The Group's operating segments are identified on the basis of annual reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to segments and assessing their performance. Specifically, segment information reported externally was analysed on the basis of the types of goods supplied and services provided by the Group's operating divisions, which is the same information reported to the chief operating decision maker.

The Group's operating segments are as follows:

- Natural Gas Business Segment engages in natural gas pipeline construction and operation of exclusive concession rights in the People's Republic of China (the "PRC")
- Property Development Business Segment engages in development of property projects in the PRC
- Property Investment Business Segment engages in leasing of investment properties in the PRC
- Hotel Business Segment engages in operation of hotels in the PRC
- Property Management Business Segment engages in provision of property management and other services in the PRC

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

3. SEGMENT INFORMATION (continued)

Segment revenues and results

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

For the six months ended 30 June 2017

	Natural Gas Business HK\$'000 (unaudited)	Property Development Business HK\$'000 (unaudited)	Property Investment Business HK\$'000 (unaudited)	Hotel Business HK\$'000 (unaudited)	Property Management Business HK\$'000 (unaudited)	Total HK\$'000 (unaudited)
TOTAL REVENUE AND EXTERNAL SALES	13,055	188,055	5,457	15,863	7,709	230,139
RESULT						
Segment operating results	(851)	(18,492)	(374)	(6,154)	2,766	(23,105)
Fair value loss in respect of investment properties revaluation	-	-	(54,278)	-	-	(54,278)
Unallocated corporate income						693
Unallocated corporate expense						(15,890)
Finance costs						(82,446)
Loss before tax						(175,026)
Income tax credit						1,371
Loss for the period						(173,655)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

3. SEGMENT INFORMATION (continued)

Segment revenues and results (continued)

For the six months ended 30 June 2016

	Natural Gas Business HK\$'000 (unaudited)	Property Development Business HK\$'000 (unaudited)	Property Investment Business HK\$'000 (unaudited)	Hotel Business HK\$'000 (unaudited)	Property Management Business HK\$'000 (unaudited)	Total HK\$'000 (unaudited)
TOTAL REVENUE AND EXTERNAL SALES	12,486	68,808	7,901	17,030	2,391	108,616
RESULT						
Segment operating results	(4,478)	(38,855)	1,383	(5,180)	(147)	(47,277)
Fair value gain in respect of investment properties revaluation	-	-	8,333	-	-	8,333
Unallocated corporate income						6,111
Unallocated corporate expense						(23,341)
Finance costs						(128,170)
Loss before tax						(184,344)
Income tax expense						(4,185)
Loss for the period						(188,529)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

4. FINANCE COSTS

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Interest expense on bank loans, and other borrowings wholly repayable within five years	75,234	79,819
Effective interest expense on convertible notes	7,212	2,877
Effective interest expense on senior notes	–	45,474
	82,446	128,170

5. INCOME TAX (CREDIT) EXPENSE

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
The tax charge comprises:		
Current tax:		
Hong Kong Profits Tax	–	–
PRC Enterprise Income Tax ("EIT")	(749)	1,938
PRC Land Appreciation Tax ("LAT")	16,403	3,693
	15,654	5,631
Current tax charge for the period	(17,025)	(1,446)
Deferred tax credit for the period		
	(1,371)	4,185

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit arising in Hong Kong for both periods.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

5. INCOME TAX (CREDIT) EXPENSE (continued)

The Group's PRC EIT is calculated based on the applicable tax rates on assessable profits, if applicable.

PRC LAT is levied at the applicable tax rate on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including cost of land use rights and all property development expenditures.

6. LOSS FOR THE PERIOD

Loss for the period has been arrived at after charging (crediting):

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Depreciation and amortisation	15,142	12,058
Operating lease rental expense in respect of rented premises	10,814	14,037
Loss on disposal of a subsidiary	–	1,627
Gain on disposal of an associate	(1,048)	–
Gain on deemed disposal of a subsidiary	–	(1,343)
Gross rental income from investment properties	(5,457)	(7,901)
Less: Direct operating expenses from investment properties that generate rental income	1,229	1,759
	(4,228)	(6,142)

7. DIVIDENDS

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

8. LOSS PER SHARE

The calculation of the basic and diluted loss per share is based on the loss attributable to owners of the Company of approximately HK\$171,793,000 (loss attributable to owners of the Company for six months ended 30 June 2016: approximately HK\$186,463,000) and the weighted average number of ordinary shares of 2,387,913,542 (six months ended 30 June 2016: 2,048,889,943) deemed to be in issue during the period.

Diluted loss per share was not presented for both periods because the impact of the conversion of convertible notes and the exercise of share options was anti-dilutive.

9. INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

Investment properties of the Group were fair valued by the professional valuers at 30 June 2017. The resulting decrease in fair value of investment properties of approximately HK\$54,278,000 (six months ended 30 June 2016: increase of approximately HK\$8,333,000) has been recognised directly in the condensed consolidated statement of profit or loss and other comprehensive income.

During the current interim period, the Group acquired property, plant and equipment at a total cost of approximately HK\$4,653,000 (six months ended 30 June 2016: disposal with an aggregate carrying value of approximately HK\$1,106,000 due to disposal of subsidiaries).

Details of the pledged investment properties and property, plant and equipment as at 30 June 2017 and 31 December 2016 are set out in Note 17.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

10. INTANGIBLE ASSETS

The Group's intangible assets represent the exclusive natural gas concession rights having the remaining operating period ranged from 22 to 25 years.

11. TRADE AND OTHER RECEIVABLES

An aging analysis of trade receivables (net of allowance for bad and doubtful debts) at the end of the reporting period based on invoice date is as follows:

	As at 30 June 2017 HK\$'000 (unaudited)	As at 31 December 2016 HK\$'000 (audited)
Within 90 days	54,671	128,986
91 to 180 days	44	2,480
Over 180 days	6,436	18,480
Trade receivables	61,151	149,946
Prepayments	78,580	67,780
Receivable on disposal of an associate	20,690	–
Other receivables and other deposits	187,366	251,343
	347,787	469,069

The Directors consider that the carrying amount of trade and other receivables approximate to their fair value.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

12. SHARE CAPITAL

	Number of ordinary shares HK\$0.1 each Share(s)	Amount HK\$'000
Authorised:		
At 1 January 2017 (audited) and 30 June 2017 (unaudited)	5,000,000,000	500,000
Issued and fully paid:		
At 1 January 2017 (audited)	2,306,594,861	230,659
Issue of shares on placing (Note a)	460,000,000	46,000
Issue of shares on conversion of convertible note (Note b)	100,000,000	10,000
At 30 June 2017 (unaudited)	2,866,594,861	286,659

All shares rank pari passu with the shares in issue in all respects.

Note a: A total of 460,000,000 shares of the Company at a subscription price of HK\$0.50 per share were issued on 23 May 2017 and 29 June 2017 pursuant to the subscription agreements dated 27 April 2017 and 26 May 2017 respectively, details of which were set out in the Company's announcement dated 27 April 2017 and 26 May 2017.

Note b: On 30 June 2017, 100,000,000 shares of the Company were issued at a conversion price of HK\$0.5 per share pursuant to the partial conversion of the convertible notes issued by the Company on 28 June 2016.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

13. BORROWINGS AND CONVERTIBLE NOTES

During the current interim period, the Group obtained new borrowings of approximately HK\$113,636,000 (six months ended 30 June 2016: approximately HK\$331,333,000), and the Group also made repayments in the amount of approximately HK\$585,305,000 (six months ended 30 June 2016: approximately HK\$336,348,000).

As at 30 June 2017, the borrowings bear interest at 3.13% to 22% per annum (31 December 2016: 3.13% to 22% per annum).

The terms and conditions of the convertible notes due on 13 November 2017 and 28 June 2019 are the same as those disclosed in the annual financial statements of the Group for the year ended 31 December 2016. On 30 June 2017, partial of the convertible notes due on 28 June 2019 with principal amount of HK\$50,000,000 was converted into 100,000,000 ordinary shares at the conversion price of HK\$0.5 by China Financial International Investments Limited.

As at 30 June 2017, the outstanding principal amount of convertible notes was HK\$104,550,000 (31 December 2016: HK\$154,550,000).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

14. TRADE AND OTHER PAYABLES

An aging analysis of the Group's trade payables at the end of the reporting period based on invoice date is as follows:

	As at 30 June 2017 HK\$'000 (unaudited)	As at 31 December 2016 HK\$'000 (audited)
Within 90 days	140,814	97,181
91 to 180 days	700	903
Over 180 days	47,829	71,312
Trade payables	189,343	169,396
Interest payables	70,021	55,376
Accrued expenses and other tax payable	20,960	24,544
Consideration payables for acquisition of subsidiaries	2,515	4,834
Deposits received in respect of proposed disposal of subsidiaries	200,000	200,000
Other payables	74,019	130,614
	556,858	584,764

The consideration payables represent the amount payable for acquisition of subsidiaries and additional interests in subsidiaries.

Trade payables principally comprise of amounts outstanding for purchase of natural gas and construction materials and construction work of properties under development and investment properties.

The Directors consider that the carrying amount of trade and other payables approximate to their fair value.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

15. BUSINESS COMBINATIONS

Deposit paid for acquisition of a subsidiary

With reference to the announcement of the Company dated on 5 January 2016, a subsidiary of the Group entered into acquisition agreements with independent third parties, pursuant to which the Group acquired 100% equity interest of Tongdao County Sen Tai Natural Gas Company Limited* in Hunan Province (“Hunan Target Company”) at a consideration of RMB21,000,000 (approximately HK\$24,706,000), subject to downward adjustments. Hunan Target Company is principally engaged in operation of exclusive natural gas construction and concession operating rights. As at 30 June 2017, the acquisition was not yet completed and an amount of RMB11,213,000 (approximately HK\$12,889,000) was paid as deposit paid for acquisition of a subsidiary.

16. DISPOSAL/DEEMED DISPOSAL OF SUBSIDIARIES

- (i) On 18 May 2016, a subsidiary of the Group entered into a sales and purchase agreement with an independent third party, pursuant to which the Group disposed the entire 90% equity interest in Tonggu County Tongcheng Natural Gas Company Limited* (“Tonggu Company”) at a consideration of RMB20,000,000 (approximately HK\$24,280,000). The disposal was completed in June 2016.
- (ii) On 23 June 2016, the subsidiaries of the Group entered into a capital increase agreement (the “Capital Increase Agreement”) with an independent third party (the “Investor”), in relation to the increase in the registered capital of Jiangsu Hohai Property Development Company Limited* (“Jiangsu Hohai”), a non-wholly owned subsidiary of the Group. Pursuant to the completion of the Capital Increase Agreement, the shareholdings of the Group in Jiangsu Hohai decreased from approximately 70.59% to 48.78% and thereby resulting in a loss in control over the Jiangsu Hohai. The reduction in equity interests in Jiangsu Hohai is treated as a deemed disposal. Details of the transaction are set out in the Company’s announcement dated 23 June 2016.

On 7 November 2016, the subsidiaries of the Group entered into another capital increase agreement with another independent third party, in relation to the increase in the registered capital of Jiangsu Hohai. Pursuant to the completion of the capital increase agreement, the shareholdings of the Group in Jiangsu Hohai decreased from approximately 48.78% to 34.79%. The reduction in equity interests in Jiangsu Hohai is treated as a deemed disposal.

On 23 February 2017 and 2 May 2017, the subsidiaries of the Group entered into the sales and purchase agreements with an independent third party, pursuant to which the Group disposed 6.96% and 27.83% equity interest in Jiangsu Hohai at a consideration of RMB4,800,000 and RMB28,000,000 (approximately HK\$5,517,000 and HK\$32,184,000) respectively. Upon completion of the sales and purchase agreements, the Group does not hold any interest in Jiangsu Hohai.

* *For identification purpose only*

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

17. PLEDGE OF ASSETS

At the end of reporting period, the following assets were pledged by the Group to banks to secure general banking facilities granted to the Group, and their respective carrying amounts are as follows.

	As at 30 June 2017 HK\$'000 (unaudited)	As at 31 December 2016 HK\$'000 (audited)
Inventory of properties together with relevant land use rights situated in the PRC	186,894	694,099
Investment properties situated in the PRC	2,034,483	2,028,090
Property, plant and equipment situated in the PRC	30,156	46,620
Pledged bank deposit situated in the PRC	13,793	13,483
	2,265,326	2,782,292

18. CONTINGENT LIABILITIES AND COMMITMENTS

- (a) As at 30 June 2017, the Group had capital commitments in respect of its construction of properties, contracted but not provided in the condensed consolidated financial statements, amounting to approximately HK\$46 million (31 December 2016: approximately HK\$17.8 million).
- (b) As at 30 June 2017, the Group had capital commitments in respect of its acquisition of a subsidiary authorised but not contracted in the consolidated financial statements amounting to RMB9.1 million (approximately HK\$10.5 million) (31 December 2016: RMB9.1 million (approximately HK\$10.2 million)).
- (c) The Group has not recognised any deferred income for the guarantees given in respect of borrowing and other banking facilities as their fair value cannot be reliably measured and transaction was minimal.
- (d) As at 30 June 2017, the Group had provided guarantees to banks for loans of approximately HK\$21.2 million (31 December 2016: approximately HK\$108.4 million) in respect of the mortgage loans provided by the banks to purchasers of the properties the Group developed and sold. The guarantees are issued from the dates of grant of the relevant mortgage loans and released upon issuance of property ownership certificates.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

18. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

- (e) As at 30 June 2017, a subsidiary was exposed to litigation in relation to joint and several guarantee provided to certain financial institutions and independent third parties regarding loan and the interest thereon totaling approximately RMB45,271,000 (equivalent to approximately HK\$52,036,000) granted to certain independent third parties. The guarantee will be released after the full repayment of the loan and interest thereon.

One of the guarantors (“guarantor”) committed to bear the loan and the interest in written. Moreover, the subsidiary also had an amount of approximately RMB47,449,000 (equivalent to approximately HK\$54,539,000) due to the guarantor as at 30 June 2017. Once the guarantor has not fulfilled his commitment, the payable amount can be set off with the loan principal together with accrued interest. Therefore, the directors consider the risk to the Company is remote and does not affect the operation of the group.

The directors consider that the above contingent liabilities are unlikely to materialise. No provision was therefore made in this respect at 30 June 2017 and 31 December 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is principally engaged in property related businesses. The Group started to dedicate to the infrastructure businesses, with primitive focus on infrastructure projects relating to environmental protection, clean energy, and urbanisation in PRC in late 2014, including natural gas sales and distribution, natural gas pipeline construction, solid waste treatment and waste to energy, etc.

Up to now, the Group has acquired 4 natural gas project companies in Hunan Province and Guangxi. The Group will develop infrastructure projects in a prudent manner based on the group resources, investment opportunities and government policies. Meanwhile, in order to maintain a healthy financial position and provide more resources to facilitate the development of the Group's business, the Group may sell the whole or a portion of Group's property portfolio depending on the market and market value of the property portfolio.

BUSINESS REVIEW

The PRC Natural Gas Business

The Group started its natural gas business in 2015. As at 30 June 2017, the Group footprinted 4 counties with substantial growth potential across 2 provinces including Hunan Province and Guangxi. The Group acquired these projects of exclusive city natural gas sales, distribution and construction rights, including residential, industrial and commercial users, LNG or CNG vehicle refilling gas stations.

Hunan Province

The Group has completed the acquisition of the two natural gas project companies in Yongxing and Rucheng counties in Chenzhou City in Hunan Province in second quarter 2015 with an equity interest of 70%. The Group held exclusive rights commencing from 2009 and 2010 for 30 years, pursuant to which it is authorised to operate the business of natural gas distribution and sales and provide services to the industrial, residential and commercial users and vehicle refueling gas stations in Yongxing and Rucheng counties. Currently, the projects are in operation providing natural gas connection construction services and gas sales to users.

Guangxi

The Group has completed the acquisition of two natural gas project companies in Rongshui county and Xiangzhou county in Guangxi in third quarter of 2015 with an equity interest of 100%. The Group held exclusive rights commencing from 2012 and 2013 for 30 years, pursuant to which it is authorised to operate the business of natural gas distribution and sales and provide services to the industrial, residential and commercial users and vehicle refueling gas station. Currently, the projects are in operation providing natural gas connection construction services and natural gas sales to users. The projects are located in Guangxi where a growing demand in natural gas usage is expected and is benefited from an expected stable and sufficient supply of natural gas from both Sino Myanmar gas pipeline and Second West East Gas pipeline.

MANAGEMENT DISCUSSION AND ANALYSIS

The PRC Property Development Business

During the Current Period, the Group's revenue from property development business amounted to approximately HK\$188.1 million, representing an increase of approximately 173%, compared with same period in 2016 of approximately HK\$68.8 million. Aggregate gross floor area (the "GFA") sold for the year was 13,954 square meters ("sq.m."), representing an increase of 195% from 4,733 sq.m. in 2016. Average selling price (the "ASP") was approximately HK\$13,477 for the period.

The Group adopted flexible and balanced approach in controlling the progress of developing projects and the Group has thereby maintained a healthy and sound position. The Group's development projects now include Zhongshui•Longyang Plaza in Wuhan and Mei Lai International Centre and Qiandao Lake Villa in Hangzhou.

The PRC Property Investment Business

Wuhan New Trend Commercial Management Company Limited (the "Commercial Company") was formed by the Group to operate the Future City Shopping Centre ("Future City") owned by the Group, which held its grand opening in late August 2011. The Future City is located at Luo Shi Road South within close proximity to the Luoyu Road shopping belt and the upcoming stations of metro line No. 2 and 7, in which line No. 2 was completed and in use since late 2012. The total leasable area of Future City is approximately 55,362 sq.m. with car park included. Future City is situated in the heart of business and commercial centre of Hongshan District in Wuhan City, convenient to East Lake, Wuhan University, Wuhan University of Technology and other landmarks. Future City now becomes a fashionable, dynamic and international shopping centre to cater the growing demand from the surrounding business centres and university region (more than twenty universities and tertiary education institutions including Wuhan University and Wuhan University of Technology) with 1,000,000 students and residential consumers. Since mid-2013, tenancy-mix optimisation project was initiated in order to further improve the earning efficiency of Future City. A decrease in both rental income and occupancy rate was noted while the project was carried out.

Hangzhou Mei Lai Commercial Property Management Company Limited* was formed by the Group to prepare the operation of the commercial part of Mei Lai International Centre in Yuhang district of Hangzhou. Construction of Mei Lai International Centre was completed in late 2013. The commercial part has approximately 57,922 sq.m. with car park included. Mei Lai International Centre is located in new Central Business District in Yuhang district of Hangzhou and adjacent to the south station of Shanghai-Hangzhou High-Speed Railway and also the terminal of Hangzhou metro line No. 1, which is already in use since late 2012, it is expected Mei Lai International Centre can meet the increasing needs from residential and office customers nearby.

* For identification purposes only

MANAGEMENT DISCUSSION AND ANALYSIS

As at 30 June 2017, the aggregate fair value of the investment properties held by the Group recorded approximately HK\$2,034.5 million. During the Current Period, the rental income of the Group was approximately HK\$5.5 million and the average occupancy rate is around 36%.

The PRC Hotel Business

Wuhan Future City Hotel Management Company Limited* (“Hotel Company”), a wholly owned subsidiary of the Group, manages a business hotel (“Future City Hotel”) with around 400 rooms, which is featured as one of the largest all suite business hotels in terms of room number in Central China. Easy access to the East Lake and universities and government authorities attracts travelers from different levels. Future City Hotel is well-equipped with function rooms and conference rooms to provide services of banquet and business conference and a team of hospitality professionals was recruited to deliver personalised services to customers.

During the Current Period, the revenue arising from Future City Hotel was approximately HK\$15.4 million and the average occupancy rate is around 80%.

Chunan Yuehuzhuang Hotel Company Limited* was formed by the Group to operate 3 villas, the clubhouse and the yacht berths of Qiandao Lake Villa project as a featured hotel under the name “Yuehuzhuang Hotel”. It recorded a revenue of approximately HK\$0.5 million during the Current Period.

The Group invested in the construction and operating right of a hotel in Hohai for thirty years. The project is located at Nanjing Gulou District No. 1 Xikang Road, next to the main campus entrance of Hohai University. As the Jiangsu Province government office is situated along Xikang Road, it is the political, economic and academic centre of Nanjing. The project has a total land site of 5,030 sq.m. and total planned GFA of approximately 34,759 sq.m. with five-star hotels, international meeting areas and commercial centres. The Group sold the investment in June 2017.

The PRC Property Management Business

Wuhan Future City Property Management Company Limited* (the “Property Company”), a wholly owned subsidiary of the Group, provides residents and tenants with safe, modern, comfortable and high quality property management services. During the Current Period, the revenue from property management was approximately HK\$7.7 million.

* For identification purposes only

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

Revenue of the Group for the six months ended 30 June 2017 was approximately HK\$230.1 million (six months ended 30 June 2016: approximately HK\$108.6 million). The increase was mainly due to an increase in revenue from sales of properties.

During the period, revenue of approximately HK\$13.1 million was contributed by the natural gas business (six months ended 30 June 2016: approximately HK\$12.5 million).

Cost of Sales

The cost of sales increased from approximately HK\$97.8 million for the six months ended 30 June 2016 to approximately HK\$190.3 million for the six months ended 30 June 2017, primarily due to the increase in total GFA recognised in Current Period. The cost of properties sold included land costs, development costs and borrowing costs.

During Current Period, the Group's cost of sales included those from property investment segment of approximately HK\$1.2 million (six months ended 30 June 2016: approximately HK\$1.7 million), and from hotel business and property management business of approximately HK\$18.7 million and approximately HK\$2.1 million respectively, which has decreased by approximately HK\$0.1 million and increased by approximately HK\$0.6 million compared with the same period last year respectively.

During Current Period, the natural gas business contributed approximately HK\$10.8 million (six months ended 30 June 2016: approximately HK\$11 million) in cost of sales, which mainly represented cost of natural gas and depreciation of property, plant and equipment and amortisation of intangible assets.

Gross Profit and Gross Profit Margin

The gross profit increased from HK\$10.8 million for the six months ended 30 June 2016 to approximately HK\$39.8 million in 2017. The Group has a gross profit margin of 17% for the Current Period, as compared with 10% for the same period in 2016. The increase in the gross profit margin was primarily because of the increase in property sales with high gross profit margin whereas the proportion of lower gross profit margin business decreased during the Current Period.

Other Operating Income

Other operating income decreased to approximately HK\$3.4 million for the six months ended 30 June 2017 from approximately HK\$6.5 million for the same period in 2016. This decrease was primarily due to the gain of approximately HK\$1.3 million on deemed disposal of a subsidiary and waiver of approximately HK\$3.5 million from other payable in the six months ended 30 June 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

Other Operating Expenses

During the Current Period, the other operating expenses accounted to approximately HK\$95,000. For the six months ended 30 June 2016, the other operating expenses of approximately HK\$13.3 million, mainly represented the loss on disposal of a subsidiary and impairment loss recognized in respect to property projects development cost.

Change in Fair Value of the Investment Properties

There was a net loss of approximately HK\$54.3 million for the six months ended 30 June 2017 arising from change in fair value of the investment property portfolio in the PRC held by the Group.

Selling and Distribution Expenses

The selling and distribution expenses increased to approximately HK\$33.3 million for the six months ended 30 June 2017 from approximately HK\$12.6 million for the same period in 2016, primarily due to an increase in advertising and promotion expenses for properties sales and hotel business.

Administrative Expenses

The administrative expenses decreased to approximately HK\$48.1 million for the six months ended 30 June 2017 from approximately HK\$55.9 million for the same period in 2016, primarily due to the professional expenses related to property development projects and the expansion of natural gas business taken place in the six months ended 30 June 2016.

Finance Costs

The finance costs decreased to approximately HK\$82.4 million for six months ended 30 June 2017 from approximately HK\$128.2 million for the same period in 2016 as the senior note had been repaid in November 2016 which has led to the decrease in finance costs.

Income Tax Credit (Expense)

The income tax credit for the six months ended 30 June 2017 was approximately HK\$1.4 million (six months ended 30 June 2016: income tax expense of approximately HK\$4.2 million). The amount was primarily attributable to the deferred tax credit arising from fair value loss in respect of investment properties revaluation and enterprise income tax and land appreciation tax arising from properties sold during the Current Period.

Loss Attributable to Owners of the Company

The loss attributable to owners of the Company for the six months ended 30 June 2017 recorded approximately HK\$171.8 million (Six months ended 30 June 2016: HK\$186.5 million).

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity, Financial and Capital Resources

Cash Position

As at 30 June 2017, total bank balances and cash (including pledged bank deposits) of the Group amounted to approximately HK\$150.0 million (31 December 2016: HK\$72.4 million).

Borrowings and Charges on the Group's Assets

As at 30 June 2017, the Group's total debts included borrowings of approximately HK\$654.4 million (31 December 2016: HK\$1,104.1 million) and liability component of convertible notes of approximately HK\$99.2 million (31 December 2016: HK\$138.5 million). Amongst the borrowings, approximately HK\$409.6 million (31 December 2016: approximately HK\$791.4 million) was repayable within one year and approximately HK\$244.8 million (31 December 2016: approximately HK\$312.7 million) was repayable after one year. The convertible notes were due in November 2017 and June 2019.

At 30 June 2017, certain bank deposits, certain property, plant and equipment together with relevant land use rights and certain investment properties with an aggregate carrying amount of approximately HK\$2,265.3 million were pledged as security for certain banking facilities granted to the Group.

Gearing Ratio

The gearing ratio was 37% as at 30 June 2017 (31 December 2016: 78%). The gearing ratio was measured by net debt (aggregated borrowings and convertible notes net of bank balances and cash and pledged bank deposits) over the total equity. The decrease was mainly due to the decrease in borrowings of approximately HK\$450 million. The current ratio (current assets divided by current liabilities) was 1.24 (31 December 2016: 1.14).

OUTLOOK AND FUTURE PLAN

The Group is principally engaged in property related business. The Group started to the infrastructure businesses, and is looking forward to benefiting from China's vast market opportunities, rapid urbanisation, rising environmental requirements. The Group will give first priority to infrastructure projects relating to urbanisation in PRC.

Property related business

Driven by the growing demand of property in the PRC, the sales of inventory of properties of the Group was further increased resulted in strengthen the stability of the cash inflow of the Group. In order to maximizing shareholders' interests, the Group will continue to seek opportunities in the well-developed city in the PRC. Having a diverse portfolio of properties including residential properties, shopping malls, office buildings, villas and hotels, the Group has a strong foundation to mitigate operating risks in challenging environment while is able grasp market opportunities.

MANAGEMENT DISCUSSION AND ANALYSIS

Infrastructure business

Operation of concession right in natural gas business is the first infrastructure sector that the Group entered. As at 30 June 2017, the Group had 4 natural gas project companies in Hunan Province and Guangxi. The Group will adjust its business portfolio according to market demand, government policies and future development of the Group.

With the deepening of reform and social development in PRC, the rapid development of urbanisation, the PRC government is accelerating the urban infrastructure construction. In order to diversify the Group's business portfolio, the Group plans to invest in different infrastructure businesses actively.

With years of extensive experience in its infrastructure and in the field of environmental protection industry, the Group's management will put its business strategy into practice and take competitive advantage to enhance the share in the PRC market. According to business development strategy, the Group continues to expand its footprint in PRC, contribute to PRC infrastructure and environmental management, while bringing exceptional value to our shareholders. The Group will continue to explore infrastructure projects relating to urbanisation of PRC and seize the opportunities to enhance the market share in the PRC market.

The Group will adhere its prudent financial management concept to maintain a healthy financial position, and will optimise the capital structure of the Group's business portfolio and broaden the sources of financing so as to maximise the shareholder value.

DISCLOSURE OF INTERESTS

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS

As at 30 June 2017, the interests and the short positions of each Director and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), as recorded in the register maintained by the Company required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") were as follows:

(i) Long positions in shares at 30 June 2017

Name of Director	Capacity	Notes	Number of underlying shares	Approximate percentage of shareholding
Mr. Li Chao Bo	Beneficial owner	(1)	678,592,000	23.67%
Ms. Wang Wenxia	Beneficial owner	(2)	1,231,440	0.04%

(ii) Long positions in underlying shares at 30 June 2017

Name of Director	Capacity	Notes	Number of underlying shares	Approximate percentage of shareholding
Ms. Wang Wenxia	Beneficial owner	(3)	12,795,263	0.44%
		(4)	18,087,228	0.63%
		(5)	54,261,684	1.89%
			85,144,175	2.96%
Mr. Wang Jian	Beneficial owner	(4)	700,000	0.02%
		(5)	700,000	0.02%
			1,400,000	0.04%

DISCLOSURE OF INTERESTS

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS (continued)

(ii) Long positions in underlying shares at 30 June 2017 (continued)

Notes:

- (1) Mr. Li Chao Bo is the sole beneficial owner of Linkway Investment Holdings Limited and Asia Unite Limited which in turn owns 668,912,000 shares and 9,680,000 shares of the Company respectively. Mr. Li Chao Bo was appointed as the Chairman and an Executive Director of the Company with effect from 31 March 2016.
- (2) The personal interests of Ms. Wang Wenxia comprise 1,231,440 ordinary shares and 85,144,175 outstanding share options.
- (3) These share options were granted on 3 November 2010 at an exercise price of HK\$0.1004 per share of the Company with exercise period from 3 November 2010 to 2 November 2020.

Pursuant to the terms of the share option scheme, the exercise price of the share options and the number of Shares to be allotted and issued upon full exercise of the subscription rights attaching to the outstanding share options were adjusted as a result of the completion of the open offer on 24 October 2011. Adjusted number of outstanding share options as 25,590,526 and adjusted exercise price per share in respect of the outstanding share options as HK\$0.9602 per share.
- (4) These share options were granted on 29 May 2013 at an exercise price of HK\$0.64 per share of the Company with exercise period from 29 May 2013 to 28 May 2023.
- (5) These share options were granted on 22 January 2015 at an exercise price of HK\$0.668 per share of the Company with exercise period from 22 January 2015 to 21 January 2025.

Save as disclosed above, at 30 June 2017, none of the Directors or chief executives of the Company had or was deemed to have any interests or short positions in shares, underlying shares or debentures of the Company and its associated corporations as recorded in the register required to be maintained under Section 352 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DISCLOSURE OF INTERESTS

SHARE OPTIONS

The following table discloses movements in the Company's share options during the period.

Category	Date of grant	Exercise price (HK\$)	Exercise period	Number of share options					
				As at 1 January 2017	Granted during the period	Exercised during the period	Expired during the period	Lapsed during the period	As at 30 June 2017
Directors	03/11/2010	0.9602	03/11/2010 to 02/11/2020	12,795,263	-	-	-	-	12,795,263
Directors/Employees/ Consultants	29/05/2013	0.64	29/05/2013 to 28/05/2023	26,187,228	-	-	-	(3,700,000)	22,487,228
Directors/Employees/ Consultants	22/01/2015	0.668	22/01/2015 to 21/01/2025	59,361,684	-	-	-	(3,700,000)	55,661,684
Employees/Consultants	16/06/2015	0.88	16/06/2015 to 15/06/2025	5,000,000	-	-	-	-	5,000,000
Consultant	25/06/2015	0.91	25/06/2015 to 24/06/2025	20,445,948	-	-	-	-	20,445,948
				123,790,123	-	-	-	(7,400,000)	116,390,123

Saved as disclosed above, at no time during the period ended 30 June 2017 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors, chief executive of the Company or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

On 18 June 2013, the shareholders of the Company at the annual general meeting approved the adoption of a new share option scheme (the "New Scheme") and the termination of the old share option scheme (the "Old Scheme") which has adopted by the Company on 3 June 2003. The New Scheme will expire on 17 June 2023. Option granted under the Old Scheme prior to such termination will continue to be valid and exercisable in accordance with the rules of the Old Scheme.

Under the current refreshed Scheme mandate limit, the share options carrying the rights to subscribe for 266,659,486 shares (representing approximately 10% of issued share capital of the Company as at 5 June 2017 (the date of annual general meeting)) were available for granting by the Company as at 30 June 2017.

DISCLOSURE OF INTERESTS

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

The register of substantial shareholders of the Company maintained under Section 336 of the SFO shows that as at 30 June 2017, the Company had been notified of the following substantial shareholders' interests and short positions in the shares and underlying shares of the Company, being 5% or more of the Company's issued share capital.

(i) Long positions in the shares at 30 June 2017

Name of substantial Shareholder	Notes	Capacity/ Nature of interest	Number of ordinary shares	Approximate percentage of shareholding
Linkway Investment Holdings Limited ("LIHL")	(1)	Beneficial owner and interest of controlled corporation	668,912,000	23.33%
China Water Affairs Group Limited	(2)	Beneficial owner and interest of controlled corporation	212,683,063	7.42%
China Financial International Investments Limited ("CFIIL")	(3)	Beneficial owner	558,735,429	19.49%
China Financial International Investments and Managements Limited	(4)	Investment manager	196,735,429	6.86%
Capital Focus Asset Management Limited	(4)	Investment manager	196,735,429	6.86%
Century Forum Development Limited	(5)	Beneficial owner	200,000,000	6.98%
Trikey Investments Limited	(5)	Beneficial owner	160,000,000	5.58%

(ii) Long positions in the underlying shares at 30 June 2017

Name of substantial Shareholder	Notes	Capacity/ Nature of interest	Number of ordinary shares	Approximate percentage of shareholding
China Water Affairs Group Limited	(6)	Interest of controlled corporation	215,683,681	7.52%
CFIIL	(7)	Beneficial owner	46,000,000	1.60%

DISCLOSURE OF INTERESTS

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY (continued)

(ii) Long positions in the underlying shares at 30 June 2016 (continued)

Notes:

- (1) These Shares were held by LIHL. Mr. Li Chao Bo ("Mr. Li") is the sole beneficial owner of LIHL. Therefore, Mr. Li has beneficially interested in the said Shares.
- (2) These shares (the "Shares") of the Company held by Sharp Profit Investments Limited ("Sharp Profit") and Good Outlook Investments Limited ("Good Outlook") which are wholly owned subsidiaries of China Water Affairs Group Limited ("China Water Affairs"). Therefore, China Water Affairs was deemed to be beneficially interested in the said Shares held by Sharp Profit and Good Outlook for the purposes of the SFO.
- (3) These Shares were held by CFIL (Stock Code: 721). Therefore, CFIL have beneficially interested in the said Shares.
- (4) These Shares were held by CFIL. China Financial International Investments and Managements Limited ("CFIIM") is 51% owned by Capital Focus Asset Management Limited ("Capital Focus") and 29% by owned CFIL. Accordingly, for the purposes of the SFO, CFIIM and Capital Focus are deemed to have the same interests in the Company as CFIL, being in the capacity of investment manager of CFIL.
- (5) The company is a company incorporated in the British Virgin Island with limited liability.
- (6) Convertible notes in the principal amount of HK\$81,550,000 carrying the rights to subscribe for Shares at conversion price of HK\$0.045 per share was issued by the Company to Good Outlook on 13 November 2007 to satisfy part of the consideration of the acquisition of the entire issued share capital of China Environmental Water Holdings Limited. If the conversion rights attached to the convertible notes had been fully exercised, 1,812,222,222 Shares would be issued at the conversion price of HK\$0.045 per share.

Pursuant to the terms of the convertible notes, the conversion price of the outstanding convertible notes were adjusted as a result of the completion of the one consolidated share for every ten shares and the open offer in the proportion of two offer shares for every five consolidated shares on 24 October 2011. Adjusted conversion price as HK\$0.3781 in respect of the outstanding principal amount of HK\$81,550,000, an aggregate of approximately 215,683,681 Shares will be issued and allotted upon full conversion of the convertible notes. China Water Affairs is deemed to be interested in the said underlying shares by virtue of its wholly owned interest in Good Outlook.
- (7) Convertible notes in the principal amount of HK\$73,000,000 carrying the rights to subscribe for Shares at conversion price of HK\$0.50 per share was issued by the Company to CFIL on 28 June 2016. If the conversion rights attached to the convertible notes had been fully exercised, 146,000,000 Shares would be issued at the conversion price of HK\$0.50 per share. On 30 June 2017, convertible notes with principal amount of HK\$50,000,000 were converted into 100,000,000 Shares at the conversion price of HK\$0.5.

Save as disclosed above, the Company has not been notified by any persons or corporations, other than the Directors or chief executives of the Company, who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of Part XV of the SFO as at 30 June 2017.

CORPORATE GOVERNANCE

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE

During the six months ended 30 June 2017, the Company has applied the principles of, and complied with, the applicable code provisions of the Corporate Governance Code and Corporate Governance Report (the “CG Code”) (previously known as Code on Corporate Governance Practices) as set out in Appendix 14 of the Listing Rules, except for certain deviations which are summarised below:

(1) Code Provision A.1.3

Under this code provision A.1.3, notice of at least 14 days should be given of a regular board meeting to give all directors an opportunity to attend. For all other board meetings, reasonable notice should be given. Although the ad-hoc meetings of the Board had convened when the circumstances required, which has given the sufficient notice to all directors and validly convened pursuant to the articles of association (the “Articles”) of the Company.

(2) Code Provision A.4.2

Under this code provision A.4.2, every director should be subject to retirement by rotation at least once every three years. According to the Articles, at each annual general meeting, one third of the Directors shall retire from office by rotation provided that notwithstanding anything therein, the chairman of the Board (the “Chairman”) shall not be subject to retirement by rotation or taken into account in determining the number of directors to retire. As continuation is a key factor to the successful long term implementation of business plans, the Board believes that the roles of the chairman provide the Group with strong and consistent leadership and allow more effective planning and execution of long-term business strategy. As such, the Board is of the view that the Chairman should not be subject to retirement by rotation.

Except as stated above, the Company has continued to comply with the applicable code provisions of the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 of the Listing Rules (as amended from time to time by the Stock Exchange) as its own code of conduct for regulating securities transactions by Directors of the Company.

Having made specific enquiry of all the Directors, all the Directors confirmed that they have complied with the required standards set out in the Model Code throughout the six months ended 30 June 2017.

OTHER INFORMATION

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2017, the total number of employees stood at approximately 351 (30 June 2016: 452). Total staff costs for the period under review was approximately HK\$23.6 million (six months ended 30 June 2016: approximately HK\$26.5 million). The Group offers its workforce comprehensive remuneration and employees' benefits packages.

INTERIM DIVIDEND

The Board resolved that the Company would not declare the payment of an interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S SHARES

During the six months ended 30 June 2017, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's ordinary shares.

AUDIT COMMITTEE

The Listing Rules require every listed issuer to establish an audit committee comprising at least three members who must be non-executive directors only, and the majority thereof must be independent non-executive directors, at least one of whom must have appropriate professional qualifications, or accounting or related financial management expertise. The audit committee is accountable to the Board and the primary duties of the audit committee include the review and supervision of the Group's financial reporting process and internal controls. The audit committee currently comprises Mr. Ng Chi Ho, Dennis (the Chairman of Audit Committee, appointed on 16 March 2017), Mr. Ji Yehong (appointed on 5 June 2017) and Mr. Wang Jian, who are the independent non-executive Directors of the Company. Mr. Wong Chi Ming resigned as Independent Non-executive Director and the Chairman of Audit Committee on 16 March 2017. Mr. Chan Pok Hiu resigned as Independent Non-executive Director on 5 June 2017.

The audit committee has reviewed the unaudited condensed consolidated financial results of the Group for the six months ended 30 June 2017.

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The Company establishes different communication channels with shareholders and investors, including (i) printed copies of corporate communications (including but not limited to annual reports, interim reports, notices of meetings, circulars and proxy forms) required under the Listing Rules; (ii) the annual general meeting provides a forum for shareholders to raise comments and exchange views with the Board; (iii) updated and key information on the Group is available on the website of the Company; (iv) the Company's website offers a communication channel between the Company and its shareholders and stakeholders; and (v) the Company's Registrar deals with shareholders for share registration and related matters.