

2015

Interim Report



Stock Code: 2349

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)

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Ms. Wang Wenxia (*Vice Chairman and Chief Executive Officer*)

Mr. Ren Qian

Non-executive Directors

Mr. Duan Chuan Liang (*Chairman*)

Mr. Zhou Kun

Independent non-executive Directors

Mr. Chan Pok Hiu

Mr. Wong Chi Ming

Mr. Wang Jian

AUDIT COMMITTEE

Mr. Wong Chi Ming (*Committee Chairman*)

Mr. Chan Pok Hiu

Mr. Wang Jian

REMUNERATION COMMITTEE

Mr. Chan Pok Hiu (*Committee Chairman*)

Mr. Wong Chi Ming

Mr. Wang Jian

NOMINATION COMMITTEE

Mr. Chan Pok Hiu (*Committee Chairman*)

Mr. Wong Chi Ming

Mr. Wang Jian

COMPANY SECRETARY

Mr. Yeung Tak Yip

AUTHORISED REPRESENTATIVES

Mr. Duan Chuan Liang

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

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

Codan 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 2015

	Notes	Six months ended 30 June	
		2015 HK\$'000 (unaudited)	2014 HK\$'000 (unaudited) (restated)
Turnover	3	39,837	175,572
Cost of sales		(32,416)	(103,314)
Gross profit		7,421	72,258
Fair value gain in respect of investment properties revaluation		67,596	48,027
Other operating income		1,189	2,641
Other operating expenses		(67,075)	(9,494)
Selling and distribution expenses		(987)	(1,167)
Administrative expenses		(41,172)	(48,108)
Finance costs	4	(39,499)	(23,453)
(Loss) profit before tax		(72,527)	40,704
Income tax expense	5	(17,353)	(29,109)
(Loss) profit for the period	6	(89,880)	11,595
(Loss) profit for the period attributable to:			
Loss for the period attributable to owners of the Company		(88,428)	(27,752)
(Loss) profit for the period attributable to non-controlling interests		(1,452)	39,347
(Loss) profit for the period		(89,880)	11,595
		HK Cents	HK Cents
Loss per share	8		
— Basic		(4.32)	(1.49)
— Diluted		(4.32)	(1.49)

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2015

	Six months ended 30 June	
	2015 HK\$'000 (unaudited)	2014 HK\$'000 (unaudited)
(Loss) profit for the period	(89,880)	11,595
Other comprehensive income for the period: Items that may be subsequently reclassified to profit or loss:		
Exchange differences arising on translating of foreign operation	–	841
Total comprehensive (expense) income for the period (net of tax)	(89,880)	12,436
Total comprehensive (expense) income attributable to:		
Owners of the Company	(88,428)	(26,911)
Non-controlling interests	(1,452)	39,347
	(89,880)	12,436

Condensed Consolidated Statement of Financial Position

At 30 June 2015

	Notes	30 June 2015 HK\$'000 (unaudited)	31 December 2014 HK\$'000 (audited)
ASSETS			
Non-current assets			
Prepaid lease payments		11,867	21,361
Property, plant and equipment	9	169,039	44,418
Investment properties	9	2,240,507	2,922,786
Goodwill	10	224,646	174,605
Intangible assets	10	163,162	–
Deposit paid for acquisition of subsidiaries	15(iii)	29,906	–
Prepayment for acquisition of an intangible asset		325,074	274,513
Available-for-sale investments		12,658	12,658
		3,176,859	3,450,341
Current assets			
Inventories		1,272	538
Inventory of properties		2,435,188	1,590,385
Trade and other receivables	11	238,242	288,578
Prepaid lease payments		18,988	18,988
Available-for-sale investments		25,000	37,000
Bank balances and cash		298,634	449,500
		3,017,324	2,384,989
TOTAL ASSETS		6,194,183	5,835,330
EQUITY AND LIABILITIES			
EQUITY			
Capital and reserves			
Share capital	12	204,459	204,459
Reserves		1,705,421	1,736,268
Equity attributable to owners of the Company		1,909,880	1,940,727
Non-controlling interests		280,367	259,639
TOTAL EQUITY		2,190,247	2,200,366

Condensed Consolidated Statement of Financial Position

At 30 June 2015

	Notes	30 June 2015 HK\$'000 (unaudited)	31 December 2014 HK\$'000 (audited)
LIABILITIES			
Non-current Liabilities			
Deferred tax liabilities		459,708	412,546
Borrowings — due after one year	13	513,522	498,965
Convertible notes	13	73,770	72,335
Senior notes	13	577,157	569,970
Deposits received for sale and lease of properties — non-current portion		1,772	3,399
		1,625,929	1,557,215
Current Liabilities			
Trade and other payables	14	705,414	713,127
Deposits received for sale and lease of properties — current portion		255,886	124,217
Tax payable		108,724	122,452
Amounts due to non-controlling shareholders of subsidiaries		—	2,608
Amounts due to related parties		229,881	102,604
Borrowings — due within one year	13	1,077,700	1,012,413
Deferred income — current portion		402	328
		2,378,007	2,077,749
TOTAL LIABILITIES		4,003,936	3,634,964
TOTAL EQUITY AND LIABILITIES		6,194,183	5,835,330
NET CURRENT ASSETS		639,317	307,240
TOTAL ASSETS LESS CURRENT LIABILITIES		3,816,176	3,757,581

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2015

	Share capital HK\$'000	Share premium HK\$'000	Convertible notes equity reserve HK\$'000	Share options reserve HK\$'000	Special reserve HK\$'000	PRC statutory reserve HK\$'000	Translation reserve HK\$'000	Accumulated profits HK\$'000	Attributable to owners of the Company HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
At 1 January 2015 (audited)	204,459	1,300,114	25,434	32,897	(184)	25,565	93,973	258,469	1,940,727	259,639	2,200,366
Loss for the period and total comprehensive expense for the period	-	-	-	-	-	-	-	(88,428)	(88,428)	(1,452)	(89,880)
Issuance of share options	-	-	-	57,581	-	-	-	-	57,581	-	57,581
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	22,180	22,180
As 30 June 2015 (unaudited)	204,459	1,300,114	25,434	90,478	(184)	25,565	93,973	170,041	1,909,880	280,367	2,190,247

For the six months ended 30 June 2014

	Share capital HK\$'000	Share premium HK\$'000	Convertible notes equity reserve HK\$'000	Share options reserve HK\$'000	Special reserve HK\$'000	PRC statutory reserve HK\$'000	Translation reserve HK\$'000	Accumulated profits HK\$'000	Attributable to owners of the Company HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
At 1 January 2014 (audited)	185,872	1,177,871	25,434	32,897	(184)	25,565	93,148	226,399	1,767,002	233,809	2,000,811
Profit (loss) for the period	-	-	-	-	-	-	-	(27,752)	(27,752)	39,347	11,595
Translation exchange differences	-	-	-	-	-	-	841	-	841	-	841
Total comprehensive income (expense) for the period	-	-	-	-	-	-	841	(27,752)	(26,911)	39,347	12,436
As 30 June 2014 (unaudited)	185,872	1,177,871	25,434	32,897	(184)	25,565	93,989	198,647	1,740,091	273,156	2,013,247

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2015

	Six months ended 30 June	
	2015 HK\$'000 (unaudited)	2014 HK\$'000 (unaudited)
NET CASH USED IN OPERATING ACTIVITIES	(108,906)	(351,517)
NET CASH USED IN INVESTING ACTIVITIES	(97,118)	(29,074)
NET CASH FROM FINANCING ACTIVITIES	55,158	495,923
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(150,866)	115,332
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	449,500	498,810
CASH AND CASH EQUIVALENTS AT END OF PERIOD	298,634	614,142
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	298,634	437,554
Pledged bank deposits	–	176,588
	298,634	614,142

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

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 and 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 2014, as described in those annual financial statements. In addition, the Group has applied the following accounting policies during the six months ended 30 June 2015 (the "Current Period"):

(a) Service concession arrangements

Service concession arrangements are accounted for as follows if:

- (i) the grantor controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them, and at what price; and
- (ii) the grantor controls through ownership, beneficial entitlement or otherwise any significant residual interest in the infrastructure at the end of the term of the arrangement.

The Group's rights over the infrastructure

Infrastructure constructed by the Group under service concession arrangements is not recognised as property, plant and equipment of the Group because the contractual service arrangement does not convey the right to control the use of the infrastructure to the Group. The operator has access to operate the infrastructure to provide the public service on behalf of the grantor in accordance with the terms specified in the contract.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(a) Service concession arrangements *(Continued)*

Consideration received or receivable by the Group for the construction services

Consideration received or receivable by the Group for the construction services rendered under service concession arrangement are recognised at their fair value as a financial asset or an intangible asset.

A financial asset (loan and receivable) is recognised to the extent that (a) the Group has an unconditional right to receive cash or another financial asset from or at the direction of the grantor for the construction services rendered; and (b) the grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law.

The Group has an unconditional right to receive cash if the grantor contractually guarantees to pay the Group (a) specified or determinable amounts or (b) the shortfall, if any, between amount received from users of the public services and specified or determinable amounts, even if the payment is contingent on the Group ensuring that the infrastructure to be constructed meets specified quality of efficiency requirements. The financial asset (loan and receivable) is accounted for in accordance with the policy set out for "Financial instruments" in the annual financial statements for the year ended 31 December 2014.

An intangible asset (concession intangible asset) is recognised to the extent that the Group receives a right to charge users of the public service, which is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the service. The intangible asset (concession intangible asset) is accounted for in accordance with the policy set out for "Intangible assets (other than goodwill)" in note 2(c).

If the Group is paid partly by a financial asset and partly by an intangible asset, in which case, each component of the consideration is accounted for separately and the consideration received or receivable for both components are recognised initially at fair value of the consideration received or receivable.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(a) Service concession arrangements *(Continued)*

Construction or upgrade services

Revenue and costs relating to construction or upgrade services are accounted for in accordance with the policy set out for "Construction contracts" in note 2(b).

Operating services

Revenue relating to operating services are accounted for in accordance with the policy for "Revenue recognition" in note 2(d).

(b) Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts for variation orders, claims and incentive payments. Contract costs comprise direct materials, costs of subcontracting, direct labour and an appropriate portion of variable and fixed construction overheads.

When the outcome of a construction contract can be estimated reliably, revenue and contract costs associated with the construction contract are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the end of reporting period.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that will probably be recoverable, and contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) Intangible assets (other than goodwill)

Acquired intangible assets are recognised initially at cost. After initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses.

The Group's intangible assets (other than goodwill) represent up-front payments to acquire the exclusive rights to operate natural gas business in the PRC excluding Hong Kong. Amortisation for the rights to operate natural gas business with finite useful lives are provided on straight-line basis over their estimated useful lives of over the remaining life of the operating rights. Both period and method of amortisation are reviewed annually.

Intangible assets with finite useful lives are tested for impairment.

(d) Revenue recognition

Revenue from sales of goods are recognised when the goods are delivered and title has passed.

Gas connection revenue is recognised when the outcome of a contract can be estimated reliably and the stage of completion at the end of the reporting period can be measured reliably. Revenue from gas connection contracts is recognised on the percentage of completion method, measured by reference to the proportion of contract cost incurred for work performed to date bear to the estimated total contract costs. When the outcome of a gas connection contract cannot be estimated reliably, revenue is recognised only to the extent of contract cost incurred that it is probable to be recoverable.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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 19	Defined Benefit Plans: Employee Contributions
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010–2012 Cycle
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011–2013 Cycle

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

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.

During the period, the Group expanded its businesses into natural gas business operating natural gas pipeline construction and operation of exclusive concession rights in the PRC.

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 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 2015

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 2015

	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	2,172	5,802	10,860	19,339	1,664	39,837
RESULT						
Segment operating results	(1,817)	(13,851)	6,630	(6,587)	(110)	(15,735)
Fair value gain in respect of investment properties revaluation	-	-	67,596	-	-	67,596
Unallocated corporate income						116
Unallocated corporate expense						(85,005)
Finance costs						(39,499)
Loss before tax						(72,527)
Income tax expense						(17,353)
Loss for the period						(89,880)

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

3. SEGMENT INFORMATION (Continued)

Segment revenues and results (Continued)

For the six months ended 30 June 2014

	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	146,114	6,970	19,521	2,967	175,572
RESULT					
Segment operating results	49,988	2,948	(6,398)	(234)	46,304
Fair value gain in respect of investment properties revaluation	-	48,027	-	-	48,027
Unallocated corporate income					2,417
Unallocated corporate expense					(32,591)
Finance costs					(23,453)
Profit before tax					40,704
Income tax expense					(29,109)
Profit for the period					11,595

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

4. FINANCE COSTS

	Six months ended 30 June	
	2015 HK\$'000 (unaudited)	2014 HK\$'000 (unaudited)
Interest expenses on bank loans and other borrowings wholly repayable within five years	77,267	76,286
Effective interest expense on convertible notes	2,723	2,902
Effective interest expense on senior notes	44,687	29,163
	124,677	108,351
Less: amounts capitalised in the cost of qualifying assets	(85,178)	(84,898)
	39,499	23,453

5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2015 HK\$'000 (unaudited)	2014 HK\$'000 (unaudited)
The tax charge comprises:		
Current tax:		
Hong Kong Profits Tax	–	–
PRC Enterprise Income Tax ("EIT")	128	9,657
PRC Land Appreciation Tax ("LAT")	326	7,445
	454	17,102
Current tax charge for the period	16,899	12,007
Deferred tax charge for the period		
	17,353	29,109

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 2015

5. INCOME TAX 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) PROFIT FOR THE PERIOD

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

	Six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Depreciation and amortisation	16,981	15,845
Operating lease rental expense in respect of rented premises	15,380	15,036
Gross rental income from investment properties	(10,860)	(6,970)
Less: Direct operating expenses from investment properties that generate rental income	2,403	1,728
	(8,457)	(5,242)

7. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2015 (six months ended 30 June 2014: Nil).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

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\$88,428,000 (loss attributable to owners of the Company for six months ended 30 June 2014: approximately HK\$27,752,000) and the weighted average number of ordinary shares of 2,044,594,861 (six months ended 30 June 2014: 1,858,722,861) 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 2015. The resulting increase in fair value of investment properties of approximately HK\$67,596,000 has been recognised directly in the condensed consolidated statement of profit or loss and other comprehensive income.

During the current interim period, in line with the Group's business strategies, the investment properties under development in Wuhan of approximately HK\$779,747,000 were transferred to inventory of properties with a view to sale and currently under pre-sell.

During the current interim period, the Group acquired property, plant and equipment at a total cost of approximately HK\$131,450,000 of which property, plant and equipment with carrying amount of approximately HK\$130,283,000 were acquired through acquisition of subsidiaries.

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

Details of the pledged investment properties as at 30 June 2015 and 31 December 2014 are set out in Note 16.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

10. INTANGIBLE ASSETS AND GOODWILL

The Group's intangible assets represent the exclusive natural gas concession rights having the remaining operating period ranged from 24 to 28 years.

During the six months ended 30 June 2015, through acquisition subsidiaries, the Group's intangible assets increased by approximately HK\$163,820,000 (six months ended 30 June 2014: Nil).

During the current interim period, the goodwill increased by approximately HK\$50,041,000, which were arising from acquisition of subsidiaries operating natural gas businesses.

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

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 2015 HK\$'000 (unaudited)	As at 31 December 2014 HK\$'000 (audited)
Within 90 days	27,108	34,738
91 to 180 days	–	44
Over 180 days	8,195	4,797
Trade receivables	35,303	39,579
Prepayments for construction work	120,300	110,714
Receivable on disposal of subsidiaries	879	879
Receivable on disposal of investment properties	–	56,456
Other receivables, prepayments and other deposits	81,760	80,950
	238,242	288,578

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 2015

12. SHARE CAPITAL

	Number of ordinary shares HK\$0.1 each Share(s)	Amount HK\$'000
Authorised:		
At 1 January 2015 (audited) and 30 June 2015 (unaudited)	5,000,000,000	500,000
Issued and fully paid:		
At 1 January 2015 (audited) and 30 June 2015 (unaudited)	2,044,594,861	204,459

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

13. BORROWINGS, CONVERTIBLE NOTES AND SENIOR NOTES

During the current interim period, the Group obtained new borrowings of approximately HK\$327,722,000 of which approximately HK\$149,354,000 was from acquisition of subsidiaries, and the Group also made repayments in the amount of approximately HK\$247,878,000.

As at 30 June 2015, the borrowings bear interest at 6% to 22% per annum (31 December 2014: 6% to 22% per annum).

For the terms and conditions of the convertible notes and senior notes, it is the same as those disclosed in the annual financial statements of the Group for the year ended 31 December 2014. As at 30 June 2015, the outstanding principal amount of convertible notes and senior notes were HK\$81,550,000 and HK\$600,000,000 (31 December 2014: HK\$81,550,000 and HK\$600,000,000) respectively. For the benefits of the holders of the senior notes, the Company has pledged the capital stock of certain non-PRC subsidiaries to secure the obligations of the Company under the senior notes.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

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 2015 HK\$'000 (unaudited)	As at 31 December 2014 HK\$'000 (audited)
Within 90 days	374,984	483,783
91 to 180 days	–	1,153
Over 180 days	19,883	30,446
Trade payables	394,867	515,382
Interest payables	56,583	32,466
Accrued expenses	6,349	11,495
Consideration payables (note)	95,443	–
Other payables	152,172	153,784
	705,414	713,127

Note: The consideration payables represent the amount payable for acquisition of subsidiaries. Details are set out in note 15(i) and (ii).

Trade payables principally comprise of amounts outstanding for purchase of 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 2015

15. BUSINESS COMBINATIONS

Acquisition of businesses through purchase of subsidiaries

- (i) Reference made to the announcement of the Company dated on 31 December 2014, a subsidiary of the Group entered into acquisition agreements with an independent third party, pursuant to which the Group acquired 70% equity interest of Yongxing Zhongtian Gas Company Limited* and Rucheng Zhongtian Gas Company Limited* (“Zhongtian Target Companies”) in Hunan Province at a consideration of Renminbi (“RMB”) 63,000,000 (approximately HK\$79,747,000). The acquisition was completed during the current interim period, on that date the control in Zhongtian Target Companies was passed to the Group. Zhongtian Target Companies are principally engaged in operation of two exclusive natural gas construction and concession operating rights. The initial accounting for the above acquisition has been determined provisionally, awaiting the receipt of professional valuation. During the current interim period, Zhongtian Target Companies contributed to the Group’s revenue and loss of approximately HK\$1,847,000 and HK\$2,760,000 respectively.

- (ii) Reference made to the announcement of the Company dated on 6 February 2015, a subsidiary of the Group entered into acquisition agreements with independent third parties, pursuant to which the Group acquired 90% equity interest of Tonggu County Tongcheng Natural Gas Company Limited* (“Tonggu Target Company”) in Jiangxi Province at a consideration of RMB49,500,000 (approximately HK\$62,658,000). The acquisition was completed during the current interim period, on that date the control in Tonggu Target Company was passed to the Group. Tonggu Target Company is principally engaged in operation of an exclusive natural gas construction and concession operating rights. The initial accounting for the above acquisition has been determined provisionally, awaiting the receipt of professional valuation. During the current interim period, Tonggu Target Company contributed to the Group’s revenue and loss of approximately HK\$325,000 and HK\$51,000 respectively.

* For identification purposes only

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

15. BUSINESS COMBINATIONS (Continued)

Acquisition of businesses through purchase of subsidiaries (Continued)

(iii) Deposit paid for acquisition of subsidiaries

Reference made to the announcements of the Company dated on 4 May 2015 and 31 July 2015, a subsidiary of the Group entered into acquisition agreements and with independent third parties, pursuant to which the Group acquired 100% equity interest of Xiangzhou County Senzhong Gas Company Limited* and Rongshui Yaneng Natural Gas Enterprise Development Company Limited* in Guangxi ("Guangxi Target Companies") at a consideration of RMB78,507,400 (approximately HK\$99,376,000). Guangxi Target Companies are principally engaged in operation of two exclusive natural gas construction and concession operating rights. As at 30 June 2015, these acquisitions were not yet completed and an amount of RMB23,625,700 (approximately HK\$29,906,000) was paid as deposit paid for acquisition of subsidiaries.

16. 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 2015 HK\$'000 (unaudited)	As at 31 December 2014 HK\$'000 (audited)
Inventory of properties together with relevant land use rights situated in the PRC	1,591,498	761,707
Investment properties situated in the PRC	2,240,507	2,164,277
Investment properties under development situated in the PRC	–	730,380
	3,832,005	3,656,364

* For identification purposes only

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

16. PLEDGE OF ASSETS *(Continued)*

In addition, the Group has also pledged its rights to receive natural gas connection and natural gas sales income and certain intangible assets of a subsidiary in favour of bank to secure a borrowing to approximately HK\$25,300,000 (31 December 2014: Nil) granted to the Group.

17. CONTINGENT LIABILITIES AND COMMITMENTS

As at 30 June 2015, 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\$429.4 million (31 December 2014: approximately HK\$452.6 million).

The Group had capital commitments in respect of its prepayment for acquisition of an intangible asset, authorised but not contracted in the consolidated financial statements, amounting to not more than approximately HK\$95.4 million (31 December 2014: approximately HK\$132.9 million).

The Group had capital commitments in respect of acquisition agreement, contracted but not provided in the consolidated financial statements, amounting to approximately HK\$6.3 million (31 December 2014: approximately HK\$25.3 million).

18. EVENTS AFTER THE REPORTING PERIOD

On 31 July 2015, reference is made to the announcement of the Company dated 4 May 2015, the Vendors and Purchaser agreed to amend the terms of Acquisition. Details of which are set out in the Company's announcement dated 31 July 2015.

Management Discussion and Analysis

The Group is dedicated to the infrastructure businesses, with primitive focus on infrastructure projects relating to environmental protection, clean energy, and urbanisation in PRC. The Group is expanding in the above businesses, including such as natural gas sales and distribution, natural gas pipeline construction, solid waste treatment and waste to energy, etc. The Group is also engaged in property related businesses.

The Group started to expand its businesses in infrastructure sector in late 2014 and it is at the transition period from property businesses to city infrastructure businesses. The property businesses are fading out while city infrastructure business starts. During this transition period, the affected result will be improved following the growth of infrastructure businesses.

Up to now, the Group has acquired 3 natural gas project companies in Hunan Province and Jiangxi Province and is in the progress of acquiring 2 natural gas project companies in Guangxi. The Group also signed non-binding acquisition memorandum of understanding and letter of intent of cooperation with a number of natural gas project companies. According to the due diligence works and Group's resources, the Group will expand the infrastructure business rapidly and continue to evaluate the investment opportunities in infrastructure projects relating to environmental protection, clean energy and urbanisation in PRC to grasp opportunities to increase market shares. Meanwhile, a healthy financial position will be maintained during the business transition. In order to devote more resources to meet the strategic direction 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.

RESULT SUMMARY

The consolidated turnover of the Group decreased from approximately HK\$175.6 million for the six months ended 30 June 2014 to approximately HK\$39.8 million for the six months ended 30 June 2015. During Current Period, the revenues from property segments, namely property development, property investment, hotel business and property management business were approximately HK\$5.8 million, HK\$10.9 million, HK\$19.3 million and HK\$1.7 million respectively. The post acquisition revenues from newly acquired natural gas business is approximately HK\$2.1 million for the Current Period, which included connection fee income and sales and distribution of natural gas in Hunan Province and Jiangxi Province.

Management Discussion and Analysis

The overall gross profit decreased to approximately HK\$7.4 million for the Current Period from HK\$72.3 million for the same period in 2014, while the gross profit margin decreased to 19% for the Current Period from 41% for the same period in 2014. The Group also had fair value gains on revaluation of various investment properties of approximately HK\$67.6 million for the six months ended 30 June 2015. During Current Period, the Group incurred an one-off non-cash share-based payment of approximately HK\$57.6 million.

The loss attributable to owners of the Company was approximately HK\$88.4 million for the six months ended 30 June 2015, increased from approximately HK\$27.8 million for the six months ended 30 June 2014. Basic loss per share attributable to owners of the Company during Current Period recorded HK4.32 cents (Six months ended 30 June 2014: HK1.49 cents). The Board does not propose any interim dividend for the six months ended 30 June 2015.

BUSINESS REVIEW

The PRC Natural Gas Business

The Group started its natural gas business during the Current Period. Since the Group expanded its business into infrastructure sector in late 2014, the Group footprinted 5 counties with substantial growth potential across 3 provinces including Hunan Province, Jiangxi Province and Guangxi. The Group acquired these projects of exclusive city natural gas sales, distribution and construction rights, including residential, industrial and commercial users, L/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 projects 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.

Management Discussion and Analysis

Jiangxi Province

The Group has completed the acquisition of a natural gas project company in Tonggu county in Jiangxi Province in second quarter 2015 with an equity interest of 90%. The projects held exclusive rights commencing from 2012 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 in Tonggu county. The project is under construction and started provision of natural gas connection construction services to users.

Guangxi

Pursuant to the acquisition agreements dated 4 May 2015 and 31 July 2015 respectively, the Group is in the progress of acquiring 2 natural gas project companies both with 100% equity interest in Guangxi. The projects 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. The acquisitions is not completed during Current Period. Currently, the projects are in operation providing natural gas connection construction services and natural gas sales to users. The project is located in Guangxi where a growing demand in natural gas usage is expected and is benefit from an expected stable and sufficient supply of natural gas from both Sino Myanmar gas pipeline and Second West East Gas pipeline.

The PRC Property Development Business

There is a significant decrease in revenue in Current Period compared with same period in 2014 mainly because fewer property units were sold and delivered in Current Period and Zhongshui • Longyang Plaza was still in its pre-sale stage and not yet delivered and recorded as sales. The Group's development projects now include Zhongshui • Longyang Plaza in Wuhan and Mei Lai International Centre and Qiandao Lake Villa in Hangzhou. With the adoption of new business strategy, the Group adopted flexible and balanced approach in controlling the progress of developing projects and keeps the Group in a healthy and sound position.

Management Discussion and Analysis

During the six months ended 30 June 2015, the Group's revenue from property development business amounted to approximately HK\$5.8 million, whereas approximately HK\$146.1 million were recorded for the same period in 2014.

All projects are under development in accordance with their development plans.

Wuhan City, Hubei

Zhongshui • Longyang Plaza

Zhongshui • Longyang Plaza is strategically situated in the prime location between the Wangjiawan business area and national level Wuhan Economic & Technological Development Zone ("WEDZ"), delineated in the western Wuhan Middle Ring Road, next to the Hanyang bus terminal and adjacent to Longyang Avenue. The project has a land site of 30,625 sq.m. and is atop station of metro line No. 3 which is expected to be in use in late 2015. This integrated complex will be developed for splendid shopping mall and luxurious office apartments with planned GFA of approximately 135,173 sq.m.. The project is under construction and under pre-sell since 2014.

Hangzhou City, Zhejiang

Mei Lai International Centre

Mei Lai International Centre is strategically located in Yuhang District, which is designated as part of the new Central Business Centre of Hangzhou City, delineated in the southern of intersection of Yingbin Road, Wengmei Road and Nanyuan Street. The integrated complex occupies a total site area of 16,448 sq.m. and is 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. The total GFA of approximately 114,610 sq.m.. The development comprises of one grade-A office block with work loft setting, two high-rise premium apartment towers and a premier shopping centre and parking spaces. The project is completed its construction and under sale since late 2013.

Management Discussion and Analysis

Qiandao Lake Villa

This development occupies a site area of approximately 44,016 sq.m. in Qiandao Lake in Hangzhou City. It is a low-density lakefront precinct with 26 detached villas featuring luxurious settings, inclusive of lift, garage, swimming pool, yards and complemented by a full-facility clubhouse. The total planned GFA is approximately 33,493 sq.m.. The location enjoys spectacular unobstructed lake view and conveniently accessible to Hangzhou City, Shanghai and Mount Huang by either high-speed railway or expressway. The project will be completed in three phases, in which phase one is completed, and phases two and three are under construction.

The PRC Property Investment Business

Wuhan Future City Commercial Property Management Company Limited* (“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.

* For identification purposes only

Management Discussion and Analysis

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. Mei Lai International Centre is completed its construction in late 2013. The commercial part has approximately 58,310 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.

Commercial part of Zhongshui • Longyang Plaza is expected to complete in 2015. The commercial part has approximately 61,415 sq. m. with car park included. Respond to Group's business strategy and the market need, the Group made the commercial part of Zhongshui • Longyang Plaza available to pre-sell and therefore it was transferred as inventory of properties during Current Period.

On 22 July 2013, a lease agreement was entered into among Beijing Huangcheng Club & Culture Company Limited* ("Huangcheng Club") and Shenzhen Zhongshui Property Company Limited* ("Zhongshui Property")(a wholly own subsidiary of the Group) and Beijing Qianmen Tianshi Property Development Company Limited* (the "Landlord"), pursuant to which the Landlord agrees to lease to the Group the Qianmen Avenue land parcel B14 (the "Land"), Beijing, the PRC, mainly for the use of as a theme hotel and culture club and related property business. As the Land is located at the core area of Central Beijing City, which is a Beijing traditional commercial street near Tiananmen Square and Dashilar Street, as well as significant political and administrative areas, the lease will enhance the Group's property portfolio and generate a stable income stream for the Group. On the same day, the Joint Venture Agreement was entered into between Zhongshui Property, an indirect wholly owned subsidiary of the Company, and Huangcheng Club, pursuant to which Beijing Shenglong Culture Company Limited* (the "Joint Venture Company") was established in Beijing, the PRC. The Joint Venture Company is owned as to 70% and 30% by each of Zhongshui Property and Huangcheng Club respectively. The purpose of establishing the Joint Venture Company is to develop and operate the Land. The project is under planning.

As at 30 June 2015, the aggregate fair value of the investment properties held by the Group recorded approximately HK\$2,240.5 million. During the period ended 30 June 2015, the rental income of the Group was approximately HK\$10.9 million and the average occupancy rate is around 44%.

* For identification purposes only

Management Discussion and Analysis

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 number of rooms 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 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\$19.0 million and the average occupancy rate is around 85%.

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” and recorded a revenue of approximately HK\$0.3 million during the Current Period.

The Group owns the construction and operating right of a hotel in Hohai Project for thirty years. The project is located at Nangjing 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 project is under construction and planned to complete in late 2015.

The PRC Property Management Business

Wuhan Future City Property Management Company Limited* (“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 period ended 30 June 2015, the revenue from property management was approximately HK\$1.7 million.

* For identification purposes only

Management Discussion and Analysis

FINANCIAL REVIEW

Turnover

Turnover of the Group for the six months ended 30 June 2015 was approximately HK\$39.8 million (six months ended 30 June 2014: approximately HK\$175.6 million). The decrease was mainly due to a decrease in revenue from sales of properties. In addition, Zhongshui • Longyang Plaza was under pre-sale and not yet delivered and recorded as sales. As a result, a significant decrease in revenue was resulted.

During the period, turnover of HK\$2.1 million was contributed by the newly acquired natural gas business. As the Group completed the acquisition of three natural gas project companies and started its natural gas business during the Current Period, the post acquisition revenue from these three natural gas companies were reflected in the Group's financial statement for the Current Period.

Cost of Sales

The cost of sales decreased from approximately HK\$103.3 million for the six months ended 30 June 2014 to approximately HK\$32.4 million for the six months ended 30 June 2015, primarily due to the decrease in total GFA recognised in Current Period, where the cost of properties sold including land costs, development costs and borrowing costs.

During Current Period, the natural gas business contributed HK\$2.8 million in cost of sales, where 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 decreased from HK\$72.3 million for the six months ended 30 June 2014 to approximately HK\$7.4 million in 2015. The Group has a gross profit margin of 19% for the Current Period, as compared with 41% for the same period in 2014. The decrease in the gross profit margin was primarily because there is a significant decrease in property sales with high gross profit margin whereas the proportion of lower gross profit margin business increased during the Current Period.

Management Discussion and Analysis

Other Operating Income

Other operating income decreased to approximately HK\$1.2 million for the six months ended 30 June 2015 from approximately HK\$2.6 million for the same period in 2014. This decrease was primarily due to a decrease in exchange gain.

Other Operating Expenses

Other operating expense, which mainly represented amortisation of prepaid lease payment and non-cash share-based payment, increased to approximately HK\$67.1 million for the six months ended 30 June 2015 from approximately HK\$9.5 million for the same period in 2014. This increase was primarily due to the one-off non-cash share-based payment incurred during Current Period.

Change in Fair Value of the Investment Properties

There was a net gain of approximately HK\$67.6 million for the six months ended 30 June 2015 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 decreased to HK\$1.0 million for the six months ended 30 June 2015 from approximately HK\$1.2 million for the same period in 2014, primarily due to a decrease in advertising and promotion expenses for properties sales and hotel business.

Administrative Expenses

The administrative expenses decreased to approximately HK\$41.2 million for the six months ended 30 June 2015 from approximately HK\$48.1 million for the same period in 2014, primarily because the property related business become stable and mature, which result in certain reduction of expenses through certain cost control measure during Current Period.

Management Discussion and Analysis

Finance Costs

The finance costs recorded approximately HK\$39.5 million for the six months ended 30 June 2015 (six months ended 30 June 2014: approximately HK\$23.5 million). As the Group raised more borrowings including senior notes, for Group's projects development and operation, finance cost increased.

Income Tax Expense

The income tax decreased to approximately HK\$17.4 million for the six months ended 30 June 2015 from approximately HK\$29.1 million for the same period in 2014. The amount was primarily attributable to the deferred tax recognised from fair value gain in respect of investment properties revaluation and enterprise income tax and land appreciation tax arising from properties sold during Current Period.

Loss Attributable to Owners of the Company

The loss attributable to owners of the Company for the six months ended 30 June 2015 recorded approximately HK\$88.4 million (Six months ended 30 June 2014: HK\$27.8 million).

Liquidity, Financial and Capital Resources

Cash Position

As at 30 June 2015, total bank balances and cash of the Group amounted to approximately HK\$298.6 million (31 December 2014: HK\$449.5 million).

Borrowings and Charges on the Group's Assets

As at 30 June 2015, the Group's total debts included borrowings, senior notes and convertible notes, which the borrowings of approximately HK\$1,591.2 million (31 December 2014: HK\$1,511.4 million), senior notes of HK\$577.1 million (31 December 2014: HK\$570.0 million) and liability component of convertible notes of approximately HK\$73.8 million (31 December 2014: HK\$72.3 million) respectively. Amongst the borrowings, approximately HK\$1,077.7 million (31 December 2014: approximately HK\$1,012.4 million) will be repayable within one year and approximately HK\$513.5 million (31 December 2014: approximately HK\$499.0 million) will be repayable after one year. The senior notes and convertible notes are due in November 2016 and November 2017 respectively.

Management Discussion and Analysis

As at 30 June 2015, certain land and buildings together with relevant land use rights, certain investment properties with an aggregate carrying amount of approximately HK\$3,832.0 million were pledged as security for certain banking facilities granted to the Group. The senior notes were guaranteed by certain subsidiaries of the Company and by pledge of their shares.

In addition, the Group has also pledged its rights to receive gas connection and gas supply fee income and certain intangible assets of a subsidiary in favour of bank to secure a borrowing granted to the Group.

Gearing Ratio

The gearing ratio was 89% as at 30 June 2015 (31 December 2014: 77%). The gearing ratio was measured by net debt (aggregated borrowings, senior notes and convertible notes net of bank balances and cash) over the total equity. The current ratio (current assets divided by current liabilities) was 1.27 (31 December 2014: 1.15).

FUTURE PLANS AND PROSPECTS

The Group is principally engaged in the infrastructure businesses, and give special priority to infrastructure projects relating to, environmental protection, clean energy and urbanisation in PRC, including such as natural gas sales and distribution, natural gas pipeline construction, solid waste treatment and waste to energy, etc., and looking forward to benefiting from PRC vast market opportunities, rapid urbanisation, rising environmental protection requirements.

The PRC government has launched a series of air pollution control policies, to accelerate control management over high energy consumption and high pollution industries, and gradually promote the transformation and upgrade of traditional industries, promote the implementation of “coal to gas” project, orderly replacement of coal-fired boilers for industrial and commercial use and the implementation of natural gas price reform, and gradually stabilise and improve the natural gas supply so as to ensure the healthy development of the national clean energy industries. Natural gas in PRC will be widely used further, the natural gas industry will usher in a new round of rapid growth in the future and entered into a new stage in a faster and broader way. Further, solid waste treatment and waste-to-energy industries are important industries of clean energy and environmental protection industry, which is also one of the development focus in the PRC and attract much attention from the society. The attention paid to clean energy and environmental protection industry will continue to increase and the determined national policy support and action plan on environmental restoration will create the unprecedented driving force for the environmental protection industry.

Management Discussion and Analysis

Up to now, the Group has acquired 3 natural gas project companies in Hunan Province and Jiangxi Province and is in the progress of acquiring 2 natural gas project companies in Guangxi. The Group also signed non-binding acquisition memorandum of understanding and letter of intent of cooperation with a number of natural gas project companies. According to the due diligence works and Group's resources, the Group will expand the infrastructure business rapidly and continue to evaluate the investment opportunities in infrastructure projects relating to environmental protection, clean energy and urbanisation in PRC to grasp opportunities to increase market shares. Meanwhile, a healthy financial position will be maintained during the business transition. In order to devote more resources to meet the strategic direction 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.

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 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 adhere to prudent financial management philosophy, to maintain a healthy balance sheet and financial position, and will optimise the Group's capital structure and businesses portfolio to create maximum value for shareholders of the Company.

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 2015, 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 as at 30 June 2015

Name of Director	Capacity	Notes	Number of ordinary shares	Approximate percentage of shareholding
Mr. Duan Chuan Liang	Beneficial owner	(1)	4,207,928	0.21%
Ms. Wang Wenxia	Beneficial owner	(2)	1,231,440	0.06%
Mr. Ren Qian	Beneficial owner	(3)	680,400	0.03%

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 as at 30 June 2015

Name of Director	Capacity	Notes	Number of underlying shares	Approximate percentage of shareholding
Mr. Duan Chuan Liang	Beneficial owner	(4)	12,795,263	0.63%
		(5)	54,262,000	2.65%
		(7)	90,436,140	4.42%
			157,493,403	7.70%
Ms. Wang Wenxia	Beneficial owner	(4)	12,795,263	0.63%
		(6)	18,087,228	0.88%
		(7)	54,261,684	2.65%
			85,144,175	4.16%
Mr. Ren Qian	Beneficial owner	(6)	1,500,000	0.07%
		(7)	1,500,000	0.07%
			3,000,000	0.14%
Mr. Zhou Kun	Beneficial owner	(6)	1,500,000	0.07%
		(7)	1,500,000	0.07%
			3,000,000	0.14%

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 as at 30 June 2015 (Continued)

Name of Director	Capacity	Notes	Number of underlying shares	Approximate percentage of shareholding
Mr. Chan Pok Hiu	Beneficial owner	(6)	700,000	0.03%
		(7)	700,000	0.03%
			1,400,000	0.06%
Mr. Wong Chi Ming	Beneficial owner	(6)	700,000	0.03%
		(7)	700,000	0.03%
			1,400,000	0.06%
Mr. Wang Jian	Beneficial owner	(6)	700,000	0.03%
		(7)	700,000	0.03%
			1,400,000	0.06%

Notes:

- (1) The personal interests of Mr. Duan Chuan Liang comprise 4,207,928 ordinary shares and 157,493,403 outstanding share options.
- (2) The personal interests of Ms. Wang Wenxia comprise 1,231,440 ordinary shares and 85,144,175 outstanding share options.
- (3) The personal interests of Mr. Ren Qian comprise 680,400 ordinary shares and 3,000,000 outstanding share options.

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 as at 30 June 2015 *(Continued)*

Notes: *(Continued)*

- (4) 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 is 25,590,526 and adjusted exercise price per share in respect of the outstanding share options is HK\$0.9602 per share.

- (5) These share options were granted on 23 April 2013 at an exercise price of HK\$0.598 per share of the Company with exercise period from 23 April 2013 to 22 April 2023.
- (6) 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.
- (7) 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, as at 30 June 2015, 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.

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 2015, 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.

Disclosure of Interests

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

(i) Long positions in the shares as at 30 June 2015

Name of substantial shareholders	Notes	Capacity/ Nature of interest	Number of ordinary shares	Approximate percentage of shareholding
China Water Affairs Group Limited	(1)	Beneficial owner and interest of controlled corporation	867,067,135	42.41%
China Financial International Investments Limited ("CFIIL")	(2)	Beneficial owner	196,735,429	9.62%
China Financial International Investments and Managements Limited	(3)	Investment manager	196,735,429	9.62%
Capital Focus Asset Management Limited	(3)	Investment manager	196,735,429	9.62%

(ii) Long positions in the underlying shares as at 30 June 2015

Name of substantial shareholders	Note	Capacity/ Nature of interest	Number of ordinary shares	Approximate percentage of shareholding
China Water Affairs Group Limited	(4)	Interest of controlled corporation	215,683,681	10.55%

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 as at 30 June 2015 *(Continued)*

Notes:

- (1) 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.
- (2) These Shares were held by China Financial International Investments Limited (Stock Code: 721). Therefore, CFIL have beneficially interested in the said Shares.
- (3) 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.
- (4) 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, 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.

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 2015.

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 30 June 2015
				As at 1 January 2015	Granted during the period	Exercised during the period	Expired during the period	Lapsed during the period	
Directors	03/11/2010	0.9602	03/11/2010 to 02/11/2020	25,590,526	-	-	-	-	25,590,526
Director	23/04/2013	0.598	23/04/2013 to 22/04/2023	54,262,000	-	-	-	-	54,262,000
Directors/ Employees/ Consultants	29/05/2013	0.64	29/05/2013 to 28/05/2023	42,787,228	-	-	-	-	42,787,228
Directors/ Employees/ Consultants	22/01/2015	0.668	22/01/2015 to 21/01/2025	-	180,872,286	-	-	-	180,872,286
Employees/ Consultants	16/06/2015	0.88	16/06/2015 to 15/06/2025	-	60,000,000	-	-	-	60,000,000
Consultant	25/06/2015	0.91	25/06/2015 to 24/06/2025	-	20,445,948	-	-	-	20,445,948
				122,639,754	261,318,234	-	-	-	383,957,988

Saved as disclosed above, at no time during the period ended 30 June 2015 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.

At 30 June 2015, the number of shares in respect of which options had been granted and remaining outstanding under the New Scheme is 124,013,538 representing 6.07% of the shares of the Company in issue at that date.

Corporate Governance

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE

During the six months ended 30 June 2015, 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 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.

(3) Code Provision A.6.7

Under this code provision A.6.7 of the CG Code, which stipulates that independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders.

Corporate Governance

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE *(Continued)*

(3) Code Provision A.6.7 *(Continued)*

Due to other business engagements, one executive Director, certain non-executive Directors and one independent non-executive Director could not attend the extraordinary general meeting of the Company held on 27 February 2015 (the "EGM") and one non-executive Director could not attend the annual general meeting of the Company held on 22 May 2015 (the "AGM"). However, at the respective general meetings of the Company, there were at least one executive Director and at least two independent non-executive Directors present to enable the Board to develop a balanced understanding of the views of the shareholders of the Company (the "Shareholders").

(4) Code Provision E.1.2

Code provision E.1.2 of the CG Code stipulates that the chairman of the board should attend the annual general meeting and also invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend. In their absence, he should invite another member of the committee or failing this his duly appointed delegate, to attend. These persons should be available to answer questions at the annual general meeting.

Due to another business engagement, Mr. Duan Chuan Liang, the Chairman of the Board, was unable to attend the AGM. However, Ms. Wang Wenxia, the Vice Chairman and executive Director of the Company, took the chair of that meetings, and at least two independent non-executive Directors, being the delegate of the audit, remuneration and nomination committees of the Company were present thereat to be available to answer any question to ensure effective communication with the Shareholders.

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

Corporate Governance

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 2015.

Other Information

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2015, the total number of employees stood at approximately 376. Total staff costs (including the share-based payment) for the period under review was approximately HK\$75.2 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 2015 (six months ended 30 June 2014: Nil).

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S SHARES

During the six months ended 30 June 2015, 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. Wong Chi Ming, Mr. Chan Pok Hiu and Mr. Wang Jian, who are the independent non-executive Directors of the Company.

The audit committee has reviewed the unaudited condensed consolidated financial results of the Group for the six months ended 30 June 2015.

Other Information

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.