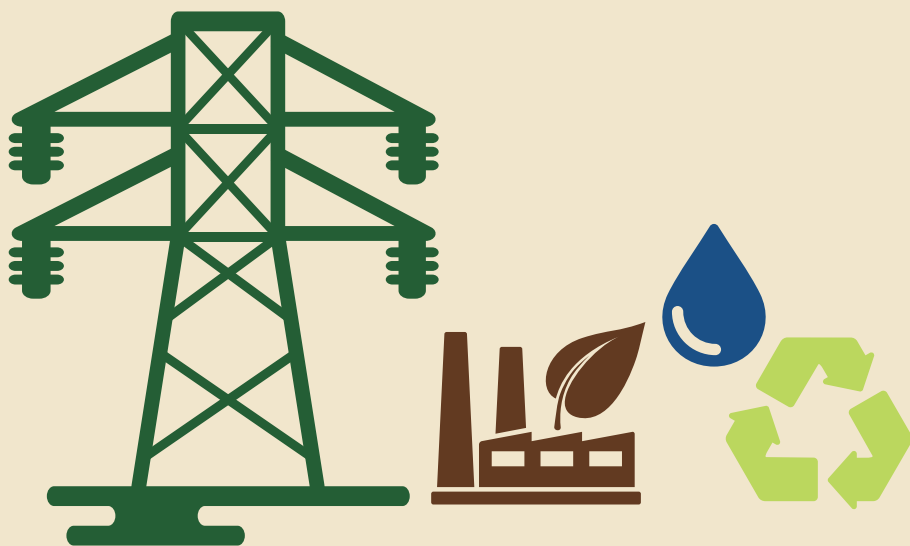


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Interim Report



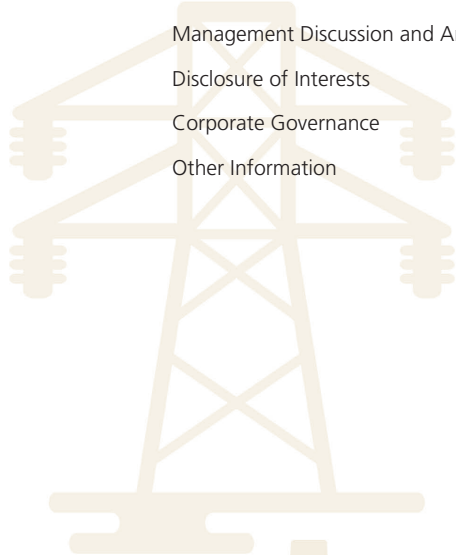
中國城市基礎設施集團有限公司
China City Infrastructure Group Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2349

Contents

	Page
Corporate Information	02
Condensed Consolidated Statement of Profit or Loss	03
Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income	04
Condensed Consolidated Statement of Financial Position	05
Condensed Consolidated Statement of Changes in Equity	07
Condensed Consolidated Cash Flow Statement	08
Notes to the Condensed Consolidated Financial Statements	09
Management Discussion and Analysis	24
Disclosure of Interests	34
Corporate Governance	40
Other Information	43



Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Li Chao Bo (*Chairman*)
(appointed on 31 March 2016)
Ms. Wang Wenxia (*Vice Chairman and
Chief Executive Officer*)
Mr. Ren Qian

Non-executive Directors

Mr. Duan Chuan Liang (*Chairman*)
(resigned on 31 March 2016)
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. Cheung Sze Kan
(appointed on 5 April 2016)
Mr. Yeung Tak Yip
(resigned on 5 April 2016)

AUTHORISED REPRESENTATIVES

Mr. Li Chao Bo (*Chairman*)
(appointed on 31 March 2016)
Mr. Duan Chuan Liang
(resigned on 31 March 2016)
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 2016

	Notes	Six months ended 30 June	
		2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
Revenue	3	108,616	39,837
Cost of sales		(97,856)	(32,416)
Gross profit		10,760	7,421
Fair value gain in respect of investment properties revaluation		8,333	67,596
Other operating income		6,450	1,189
Other operating expenses		(13,294)	(67,075)
Selling and distribution expenses		(12,569)	(987)
Administrative expenses		(55,854)	(41,172)
Finance costs	4	(128,170)	(39,499)
Loss before tax		(184,344)	(72,527)
Income tax expense	5	(4,185)	(17,353)
Loss for the period	6	(188,529)	(89,880)
Loss for the period attributable to:			
Loss for the period attributable to owners of the Company		(186,463)	(88,428)
Loss for the period attributable to non-controlling interests		(2,066)	(1,452)
Loss for the period		(188,529)	(89,880)
		HK Cents	HK Cents
Loss per share	8		
— Basic		(9.10)	(4.32)
— Diluted		(9.10)	(4.32)

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2016

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Loss for the period	(188,529)	(89,880)
Other comprehensive expense for the period:		
Items that may be subsequently reclassified to profit or loss:		
Exchange differences arising on translating of foreign operation	(22,174)	–
Total comprehensive expense for the period (net of tax)	(210,703)	(89,880)
Total comprehensive expense attributable to:		
Owners of the Company	(208,406)	(88,428)
Non-controlling interests	(2,297)	(1,452)
	(210,703)	(89,880)

Condensed Consolidated Statement of Financial Position

At 30 June 2016

	Notes	30 June 2016 HK\$'000 (unaudited)	31 December 2015 HK\$'000 (audited)
ASSETS			
Non-current assets			
Property, plant and equipment	9	196,350	207,946
Investment properties	9	2,123,861	2,140,477
Goodwill	10	212,206	219,313
Intangible assets	10	128,912	213,725
Investment in an associate		21,790	–
Prepayment for acquisition of an intangible asset		–	348,870
Deposit paid on acquisition of a subsidiary		3,059	–
		2,686,178	3,130,331
Current assets			
Inventories		10,321	7,647
Inventory of properties		2,024,830	2,109,881
Trade and other receivables	11	333,892	313,283
Amount due from an associate		170,046	–
Available-for-sale investments		8,000	25,000
Pledged bank deposits		14,118	14,286
Bank balances and cash		236,979	89,846
		2,798,186	2,559,943
TOTAL ASSETS		5,484,364	5,690,274
EQUITY AND LIABILITIES			
EQUITY			
Capital and reserves			
Share capital	12	230,659	204,459
Reserves		1,466,441	1,551,994
Equity attributable to owners of the Company		1,697,100	1,756,453
Non-controlling interests		130,027	142,363
TOTAL EQUITY		1,827,127	1,898,816

Condensed Consolidated Statement of Financial Position

At 30 June 2016

	Notes	30 June 2016 HK\$'000 (unaudited)	31 December 2015 HK\$'000 (audited)
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities		428,421	440,380
Borrowings — due after one year	13	328,412	459,026
Amounts due to related parties			
— due after one year		362,587	357,143
Convertible notes	13	132,775	75,286
Deposits received for sale and lease of properties			
— non-current portion		1,529	1,667
		1,253,724	1,333,502
Current liabilities			
Trade and other payables	14	481,486	621,751
Deposits received for sale and lease of properties			
— current portion		58,748	59,239
Tax payable		92,468	121,960
Amounts due to non-controlling shareholders of subsidiaries		1,291	32,253
Amounts due to related parties		314,009	264,581
Borrowings — due within one year	13	862,651	773,304
Senior notes	13	592,698	584,724
Deferred income — current portion		162	144
		2,403,513	2,457,956
TOTAL LIABILITIES		3,657,237	3,791,458
TOTAL EQUITY AND LIABILITIES		5,484,364	5,690,274
NET CURRENT ASSETS		394,673	101,987
TOTAL ASSETS LESS CURRENT LIABILITIES		3,080,851	3,232,318

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2016

	Share capital HK\$'000	Share premium HK\$'000	Convertible	Share	Special reserve HK\$'000	Capital reserve HK\$'000	PRC		Accumulated profits HK\$'000	Attributable to owners		Non-controlling interests HK\$'000	Total HK\$'000
			notes equity reserve HK\$'000	options reserve HK\$'000			statutory reserve HK\$'000	Translation reserve HK\$'000		of the Company HK\$'000	interests 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	

For the six months ended 30 June 2015

	Share capital HK\$'000	Share premium HK\$'000	Convertible	Share	Special reserve HK\$'000	PRC		Accumulated profits HK\$'000	Attributable to owners		Non-controlling interests HK\$'000	Total HK\$'000
			notes equity reserve HK\$'000	options reserve HK\$'000		statutory reserve HK\$'000	Translation reserve HK\$'000		of the Company HK\$'000	interests 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	

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2016

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
NET CASH USED IN OPERATING ACTIVITIES	(280,475)	(108,906)
NET CASH USED IN INVESTING ACTIVITIES	(82)	(97,118)
NET CASH FROM FINANCING ACTIVITIES	428,941	55,158
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	148,384	(150,866)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(1,419)	–
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	104,132	449,500
CASH AND CASH EQUIVALENTS AT END OF PERIOD	251,097	298,634
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	236,979	298,634
Pledged bank deposits	14,118	–
	251,097	298,634

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

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 2015, as described in those annual financial statements. In addition, the Group has applied the following accounting policies during the six months ended 30 June 2016 (the "Current Period"):

Investments in an associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with HKFRS 5. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Investments in an associate *(Continued)*

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in profit or loss in the period in which the investment is acquired.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate, or when the investment is classified as held for sale. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with HKAS 39. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Investments in an associate (Continued)

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate is recognised in the Group's consolidated financial statements only to the extent of interests in the associate that is not related to the Group.

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:

HKFRSs (Amendments)	Annual Improvements to HKFRSs 2012–2014 Cycle
HKFRS 10 and HKFRS 12 and HKAS 28 (Amendments)	Investment Entities: Applying the Consolidation Exception
HKFRS 11 (Amendments)	Accounting for Acquisitions of Interests in Joint Operations
HKFRS 14	Regulatory Deferral Accounts
HKAS 1 (Amendments)	Disclosure Initiative
HKAS 16 and HKAS 38 (Amendments)	Clarification of Acceptable Methods of Depreciation and Amortisation
HKAS 16 and HKAS 41 (Amendments)	Agriculture:Bearer Plants
HKAS 27 (Amendments)	Equity Method in Separate Financial Statements

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 2016

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 2016

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 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 2016

3. SEGMENT INFORMATION (Continued)

Segment revenues and results (Continued)

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 reevaluation	-	-	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 2016

4. FINANCE COSTS

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Interest expense on bank loans, and other borrowings wholly repayable within five years	79,819	77,267
Effective interest expense on convertible notes	2,877	2,723
Effective interest expense on senior notes	45,474	44,687
	128,170	124,677
Less: amounts capitalised in the cost of qualifying assets	–	(85,178)
	128,170	39,499

5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
The tax charge comprises:		
Current tax:		
Hong Kong Profits Tax	–	–
PRC Enterprise Income Tax ("EIT")	1,938	128
PRC Land Appreciation Tax ("LAT")	3,693	326
Current tax charge for the period	5,631	454
Deferred tax (credit) charge for the period	(1,446)	16,899
	4,185	17,353

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 2016

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 FOR THE PERIOD

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

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Depreciation and amortisation	12,058	16,981
Operating lease rental expense in respect of rented premises	14,037	15,380
Loss on disposal of a subsidiary	1,627	–
Gain on deemed disposal of a subsidiary	(1,343)	–
Gross rental income from investment properties	(7,901)	(10,860)
Less: Direct operating expenses from investment properties that generate rental income	1,759	2,403
	(6,142)	(8,457)

7. DIVIDENDS

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

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\$186,463,000 (loss attributable to owners of the Company for six months ended 30 June 2015: approximately HK\$88,428,000) and the weighted average number of ordinary shares of 2,048,889,943 (six months ended 30 June 2015: 2,044,594,861) 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 2016. The resulting increase in fair value of investment properties 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 disposed property, plant and equipment with carrying amount 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 2016 and 31 December 2015 are set out in Note 17.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

10. INTANGIBLE ASSETS AND GOODWILL

The Group's intangible assets represent the exclusive natural gas concession rights having the remaining operating period ranged from 23 to 26 years.

During the six months ended 30 June 2016, through disposal of a subsidiary, the Group's intangible assets decreased by approximately HK\$80,546,000.

During the current interim period, the goodwill decreased by approximately HK\$6,739,000, which were arising from disposal of a subsidiary with operating natural gas business.

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 2016 HK\$'000 (unaudited)	As at 31 December 2015 HK\$'000 (audited)
Within 90 days	70,310	95,980
91 to 180 days	190	1,087
Over 180 days	13,068	11,707
Trade receivables	83,568	108,774
Prepayments	161,503	146,565
Receivable on disposal of a subsidiary	21,176	–
Other receivables and other deposits	67,645	57,944
	333,892	313,283

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 2016

12. SHARE CAPITAL

	Number of ordinary shares HK\$0.1 each Share(s)	Amount HK\$'000
Authorised:		
At 1 January 2016 (audited) and 30 June 2016 (unaudited)	<u>5,000,000,000</u>	<u>500,000</u>
Issued and fully paid:		
At 1 January 2016 (audited)	2,044,594,861	204,459
Issue of shares (note)	<u>262,000,000</u>	<u>26,200</u>
At 30 June 2016 (unaudited)	<u>2,306,594,861</u>	<u>230,659</u>

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

note: On 28 June 2016, 262,000,000 shares were issued by the Company as a result of a subscription agreement dated 21 June 2016. Shares were issued at a price of HK\$0.50 giving the gross proceeds of HK\$131,000,000 for general working capital of the Company.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

13. BORROWINGS, CONVERTIBLE NOTES AND SENIOR NOTES

During the current interim period, the Group obtained new borrowings of approximately HK\$331,333,000, and the Group also made repayments in the amount of approximately HK\$336,348,000.

As at 30 June 2016, the borrowings bear interest at 3.6% to 22% per annum (31 December 2015: 3.6% to 24% per annum).

For the terms and conditions of the convertible notes due on 13 November 2017 and senior notes, it is the same as those disclosed in the annual financial statements of the Group for the year ended 31 December 2015. On 28 June 2016, the Company issued convertible note with an aggregate principal amount of HK\$73,000,000 ("2019 Notes"), due on 28 June 2019 and bearing interest at 5% per annum payable annually in arrears. The 2019 Notes were issued to China Financial International Investments Limited, one of the substantial shareholders of the Company. The 2019 Notes are convertible into fully paid ordinary shares with a par value of HK\$0.1 each of the Company at an initial conversion price of HK\$0.50, subject to adjustment.

As at 30 June 2016, the outstanding principal amount of convertible notes and senior notes were HK\$154,550,000 and HK\$600,000,000 (31 December 2015: 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 2016

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 2016 HK\$'000 (unaudited)	As at 31 December 2015 HK\$'000 (audited)
Within 90 days	183,446	306,619
91 to 180 days	1,484	562
Over 180 days	23,010	36,387
Trade payables	207,940	343,568
Interest payables	81,668	49,095
Accrued expenses and other tax payable	18,540	20,422
Consideration payables for acquisition of subsidiaries	35,899	39,314
Other payables	137,439	169,352
	481,486	621,751

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 2016

15. BUSINESS COMBINATIONS

Deposit paid for acquisition of a subsidiary

Reference made to the announcements 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 2016, the acquisition was not yet completed and an amount of RMB2,600,000 (approximately HK\$3,059,000) 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 disposes 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 the loss in control 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.

* For identification purpose only

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

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 2016 HK\$'000 (unaudited)	As at 31 December 2015 HK\$'000 (audited)
Inventory of properties together with relevant land use rights situated in the PRC	1,271,202	1,352,548
Investment properties situated in the PRC	2,123,861	2,140,477
Property, plant and equipment situated in the PRC	68,487	16,254
Intangible assets situated in the PRC	–	80,579
Pledged bank deposit situated in the PRC	14,118	14,286
	3,477,668	3,604,144

18. CONTINGENT LIABILITIES AND COMMITMENTS

As at 30 June 2016, 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\$21.1 million (31 December 2015: approximately HK\$21.4 million).

As at 30 June 2016, the Group had no capital commitments in respect of its prepayment for acquisition of an intangible asset, authorised but not contracted in the consolidated financial statements (31 December 2015: approximately HK\$71.4 million).

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.

As at 30 June 2016, the Group had provided guarantees to banks for loans of approximately HK\$11.9 million (31 December 2015: approximately HK\$48.7 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.

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

As at 30 June 2016, the Group has 4 natural gas project companies in Hunan Province and Guangxi and is in the progress of acquiring 1 natural gas project company in Hunan province. 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 Revenue of the Group increased from approximately HK\$39.8 million for the six months ended 30 June 2015 to approximately HK\$108.6 million for the six months ended 30 June 2016 (the "Current Period"). During Current Period, the revenues from property segments, namely property development, property investment, hotel business and property management business were approximately HK\$68.8 million, HK\$7.9 million, HK\$17.0 million and HK\$2.4 million respectively. The revenues from natural gas business is approximately HK\$12.5 million for the Current Period, which included connection fee income and sales and distribution of natural gas in Hunan Province, Jiangxi Province and Guangxi.

Management Discussion and Analysis

The overall gross profit increased to approximately HK\$10.8 million for the Current Period from HK\$7.4 million for the same period in 2015, while the gross profit margin decreased to 10% for the Current Period from 19% for the same period in 2015. The Group also had fair value gains on revaluation of various investment properties of approximately HK\$8.3 million for the six months ended 30 June 2016.

The loss attributable to owners of the Company was approximately HK\$186.5 million for the six months ended 30 June 2016, increased from approximately HK\$88.4 million for the six months ended 30 June 2015. Basic loss per share attributable to owners of the Company during Current Period recorded HK9.10 cents (Six months ended 30 June 2015: HK4.32 cents). The Board does not propose any interim dividend for the six months ended 30 June 2016.

BUSINESS REVIEW

The PRC Natural Gas Business

The Group started its natural gas business in 2015. As at 30 June 2016, 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, 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.

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 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. 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 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

During the Current Period, the Group's revenue from property development business amounted to approximately HK\$68.8 million, representing an increase of approximately 1086%, compared with same period in 2015 of approximately HK\$5.8 million. Aggregate gross floor area (the "GFA") sold for the year was 4,733 square meters ("sq.m."), representing an increase of 1198% from 395 sq.m. in 2015. Average selling price (the "ASP") was approximately HK\$14,538 for the period. The significant increase in revenue was because of the record of the sales and delivery of Zhongshui•Longyang Plaza in the Current Period.

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. The Group's development projects now include Zhongshui•Longyang Plaza in Wuhan and Mei Lai International Centre and Qiandao Lake Villa in Hangzhou.

Management Discussion and Analysis

The PRC Property Investment Business

Wuhan New Trend Commercial Management Company Limited* (formerly known as Wuhan Future City Commercial Property 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. Mei Lai International Centre is completed its construction 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.

As at 30 June 2016, the aggregate fair value of the investment properties held by the Group recorded approximately HK\$2,123.9 million. During the period ended 30 June 2016, the rental income of the Group was approximately HK\$7.9 million and the average occupancy rate is around 36%.

* 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\$16.5 million and the average occupancy rate is around 86%.

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\$0.5 million during the Current Period.

Jiangsu Hohai Property Development Company Limited*, an associate of 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 cultural 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 2016.

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 period ended 30 June 2016, the revenue from property management was approximately HK\$2.4 million.

* For identification purposes only

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue

Revenue of the Group for the six months ended 30 June 2016 was approximately HK\$108.6 million (six months ended 30 June 2015: approximately HK\$39.8 million). The increase was mainly due to an increase in revenue from sales of properties.

During the period, revenue of approximately HK\$12.5 million was contributed by the natural gas business (six months ended 30 June 2015: approximately HK\$2.1 million). As the Group completed the acquisition of natural gas project companies and started its natural gas business during the six months ended 30 June 2015, only the post acquisition revenue were reflected in the Group's financial statement for the six months ended 30 June 2015, while the revenue contributed by the natural gas project companies was fully reflected during the Current Period.

Cost of Sales

The cost of sales increased from approximately HK\$32.4 million for the six months ended 30 June 2015 to approximately HK\$97.8 million for the six months ended 30 June 2016, primarily due to the increase 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 approximately HK\$11.0 million (six months ended 30 June 2015: approximately 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 increased from HK\$7.4 million for the six months ended 30 June 2015 to approximately HK\$10.8 million in 2016. The Group has a gross profit margin of 10% for the Current Period, as compared with 19% for the same period in 2015. The decrease in the gross profit margin was primarily because there is a decrease in property sales with high gross profit margin whereas the proportion of lower gross profit margin business increased during the Current Period.

Other Operating Income

Other operating income increased to approximately HK\$6.5 million for the six months ended 30 June 2016 from approximately HK\$1.2 million for the same period in 2015. This increase was primarily due to the gain on deemed disposal of a subsidiary and written off of other payables.

Other Operating Expenses

During the Current Period, the other operating expenses of approximately HK\$13.3 million, represented the loss on disposal of a subsidiary and impairment loss recognized in respect to property projects development cost, while it mainly represented amortisation of prepaid lease payment and non-cash share-based payment of approximately HK\$67.1 million for the six months ended 30 June 2015.

Change in Fair Value of the Investment Properties

There was a net gain of approximately HK\$8.3 million for the six months ended 30 June 2016 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 HK\$12.6 million for the six months ended 30 June 2016 from approximately HK\$1.0 million for the same period in 2015, primarily due to an increase in advertising and promotion expenses for properties sales and hotel business.

Administrative Expenses

The administrative expenses increased to approximately HK\$55.9 million for the six months ended 30 June 2016 from approximately HK\$41.2 million for the same period in 2015, primarily due to increase in professional expenses related to property development projects and the expansion of natural gas business.

Management Discussion and Analysis

Finance Costs

The finance costs increased to approximately HK\$128.2 million for six months ended 30 June 2016 from approximately HK\$39.5 million for the same period in 2015, there were an increase in amount due to related parties and other borrowings meanwhile, the number of Group's property development projects decreased, the interest capitalised decreased leading to therefore finance costs increased.

Income Tax Expense

The income tax decreased to approximately HK\$4.2 million for the six months ended 30 June 2016 from approximately HK\$17.4 million for the same period in 2015. 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 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 2016 recorded approximately HK\$186.5 million (Six months ended 30 June 2015: HK\$88.4 million).

Liquidity, Financial and Capital Resources

Cash Position

As at 30 June 2016, total bank balances and cash (including pledged bank deposits) of the Group amounted to approximately HK\$251.1 million (31 December 2015: HK\$104.2 million).

Borrowings and Charges on the Group's Assets

As at 30 June 2016, the Group's total debts included borrowings, senior notes and convertible notes, which the borrowings of approximately HK\$1,191.1 million (31 December 2015: HK\$1,232.3 million), senior notes of HK\$592.7 million (31 December 2015: HK\$584.7 million) and liability component of convertible notes of approximately HK\$132.8 million (31 December 2015: HK\$75.3 million) respectively. Amongst the borrowings, approximately HK\$862.7 million (31 December 2015: approximately HK\$773.3 million) will be repayable within one year and approximately HK\$328.4 million (31 December 2015: approximately HK\$459.0 million) will be repayable after one year. The senior notes are due in November 2016. The convertible notes are due in November 2017 and June 2019.

Management Discussion and Analysis

At 30 June 2016, 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\$3,477.7 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.

Gearing Ratio

The gearing ratio was 91% as at 30 June 2016 (31 December 2015: 94%). The gearing ratio was measured by net debt (aggregated borrowings, senior notes and convertible notes net of bank balances and cash and pledged bank deposits) over the total equity. The current ratio (current assets divided by current liabilities) was 1.16 (31 December 2015: 1.04).

OUTLOOK AND FUTURE PLAN

The Group is principally engaged in the infrastructure businesses, and looking forward to benefiting from China's vast market opportunities, rapid urbanisation, rising environmental requirements. The Group will give special priority to environmental protection, clean energy and urbanisation development and other infrastructure-related projects.

Operation of concession right in natural gas business

Operation of concession right in natural gas business is the first infrastructure sector that the Group entered. As at 30 June 2016, the Group has 4 natural gas project companies in Hunan Province and Guangxi and is in the progress of acquiring 1 natural gas project company in Hunan Province.

Natural gas, as a sustainable development clean energy, not only can significantly reduce sulfur dioxide and nitrogen oxide emissions, but also the important elements of urbanization development and improvement of people's livelihood, having obvious environmental benefits and social benefits. Recently, the natural gas selling price adjustment promote enterprise healthy competition, provides a broad space for natural gas business development and increases the demand of quality clean natural gas, it is advantageous to the stable development of the natural gas industry.

Management Discussion and Analysis

According to the “China Energy Outlook 2030” released in early March 2016, it is expected that the consumption volume of domestic natural gas in 2020 will reach 290,000 million cubic meters, representing an average growth rate of 7.5% per year during the period of the 13th Five-Year Plan. In 2030, the amount is expected to reach 480,000 million cubic meters and the average growth rate between 2020 and 2030 will be 5.2% per year. The contribution of natural gas consumption to aggregate consumption of primary energy sources will increase to 12%.

The PRC government has launched a series supportive policies, with the increasing demand of natural gas and improve the natural gas supply, 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. The Group will seize the opportunity, and leverage their strengths, and is actively seeking acquisition opportunities in the regions of huge development potential through a number of channels and networks, so that the Group’s natural gas business grows considerably.

Other environmental and clean energy businesses (such as solid waste treatment and waste to energy)

In future, with the deepening of reform and social development in PRC, the rapid development of urbanisation, growing public awareness of environmental issues, to promote the development of environmental protection industry and use of clean energy has become a trend, environmental protection and clean energy policy of the PRC government launched will benefit the Group and provide the Group’s related infrastructure businesses a broad and bright development future.

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 continue to explore infrastructure projects relating to environmental protection, clean energy and urbanisation of PRC and seize the opportunities to enhance the market share in the PRC market.

China City Infrastructure will adhere its prudent financial management concepts, to maintain a healthy balance sheet and financial position, and will optimise the capital structure of the Group’s business portfolio and broaden the sources of financing, to maximise 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 2016, 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 2016

Name of Director	Capacity	Notes	Number of underlying shares	Approximate percentage of shareholding
Mr. Li Chao Bo	Beneficial owner	(1)	9,680,000	0.42%
Ms. Wang Wenxia	Beneficial owner	(2)	1,231,440	0.05%
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 at 30 June 2016

Name of Director	Capacity	Notes	Number of underlying shares	Approximate percentage of shareholding
Ms. Wang Wenxia	Beneficial owner	(4)	12,795,263	0.55%
		(5)	18,087,228	0.78%
		(6)	54,261,684	2.35%
			85,144,175	3.68%
Mr. Ren Qian	Beneficial owner	(5)	1,500,000	0.07%
		(6)	1,500,000	0.07%
			3,000,000	0.14%
Mr. Zhou Kun	Beneficial owner	(5)	1,500,000	0.07%
		(6)	1,500,000	0.07%
			3,000,000	0.14%
Mr. Chan Pok Hiu	Beneficial owner	(5)	700,000	0.03%
		(6)	700,000	0.03%
			1,400,000	0.06%
Mr. Wong Chi Ming	Beneficial owner	(5)	700,000	0.03%
		(6)	700,000	0.03%
			1,400,000	0.06%
Mr. Wang Jian	Beneficial owner	(5)	700,000	0.03%
		(6)	700,000	0.03%
			1,400,000	0.06%

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 2016 *(Continued)*

Notes:

- (1) Mr. Li Chao Bo is the sole beneficial owner of Asia Unite Limited which in turn owns 9,680,000 shares of the Company. 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) The personal interests of Mr. Ren Qian comprise 680,400 ordinary shares and 3,000,000 outstanding share options.
- (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 as 25,590,526 and adjusted exercise price per share in respect of the outstanding share options as HK\$0.9602 per share.

- (5) 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.
- (6) 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 2016, 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 30 June 2016
				As at 1 January 2016	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	-	-	-	(12,795,263)	12,795,263
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	-	-	-	(90,436,140)	90,436,146
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
				<u>383,957,988</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(157,493,403)</u>	<u>226,464,585</u>

Saved as disclosed above, at no time during the period ended 30 June 2016 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 204,459,486 shares (representing approximately 10% of issued share capital of the Company as at 3 June 2016 (the date of annual general meeting)) were available for granting by the Company as at 30 June 2016.

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 2016, 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 2016

Name of substantial Shareholder	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	877,387,135	38.04%
China Financial International Investments Limited ("CFIIL")	(2)	Beneficial owner	458,735,429	19.89%
China Financial International Investments and Managements Limited	(3)	Investment manager	196,735,429	8.53%
Capital Focus Asset Management Limited	(3)	Investment manager	196,735,429	8.53%

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

Name of substantial Shareholder	Notes	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	9.35%
CFIIL	(5)	Beneficial owner	146,000,000	6.33%

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 (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.

Reference is also made to the announcement of the Company dated 30 March 2016. Linkway Investment Holdings Limited as purchaser entered into a conditional sale and purchase agreement with China Water Affairs Group Limited to acquire 592,932,500 Shares of the Company. Completion of the possible transfer will take place on or after 30 January 2017, subject to the conditions of the sale and purchase agreement having been fulfilled.

- (2) These Shares were held by CFIL (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, 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.

- (5) 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.

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 2016.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE

During the six months ended 30 June 2016, 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.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE *(Continued)*

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

Due to other business engagements, two executive Directors and one non-executive Director could not attend the annual general meeting of the Company held on 3 June 2016 (the “AGM”). However, at the AGM, there were at least one executive Director and all 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. Li Chao Bo, 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 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.

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 2016.

Other Information

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2016, the total number of employees stood at approximately 452. Total staff costs for the period under review was 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 2016 (six months ended 30 June 2015: Nil).

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S SHARES

During the six months ended 30 June 2016, 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 2016.

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.