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(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1129)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2009

The Board of Directors (the “Board”) of China Water Industry Group Limited (the “Company”) is pleased to announce the unaudited condensed consolidated financial results of the Company and its subsidiary (collectively referred to as the “Group”) for the six months ended 30 June 2009 (the “Interim Period”), together with comparative figures for the corresponding period in 2008. These interim financial statements have not been audited but have been reviewed by the Company’s Audit Committee.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2009

		Six months ended 30 June	
		2009	2008
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Turnover		128,710	129,404
Revenue	4	83,706	54,592
Cost of sales		(58,989)	(31,386)
Gross profit		24,717	23,206
Net (loss) gain on disposal of debt securities		(28,612)	1,143
Net fair value change on listed trading securities		–	5,531
Increase in fair values of financial assets at fair value through profit or loss		–	2,435
Change in fair value of convertible bonds		(131,278)	1,461
Discount on acquisition of a business		–	24,166
Gain on disposal of subsidiaries/business		17,054	–
Other operating income		2,266	6,825
Selling and distribution costs		(4,485)	(3,102)
Administrative expenses		(35,460)	(23,029)
Share of results of associates		(2,330)	5,177
Finance costs		(2,911)	(2,719)
(Loss) profit before tax	5	(161,039)	41,094
Income tax expense	6	(1,223)	(284)
(Loss) profit for the period		(162,262)	40,810

		Six months ended 30 June	
		2009	2008
<i>Notes</i>		<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)
Attributable to:			
Owners of the Company		(161,836)	33,613
Minority interests		(426)	7,197
		<u>(162,262)</u>	<u>40,810</u>
(Loss) earnings per share	7		
Basic		HK(8.45 cents)	HK1.78 cents
Diluted		N/A	HK1.46 cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2009

	Six months ended 30 June	
	2009	2008
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
(Loss) profit for the period	<u>(162,262)</u>	<u>40,810</u>
Other comprehensive income		
Exchange differences arising on translation of foreign operations	2,643	17,087
Change in fair value of available-for-sale investments	<u>89,650</u>	<u>(16,039)</u>
Other comprehensive income for the period, net of tax	<u>92,293</u>	<u>1,048</u>
Total comprehensive (expenses) income for the period, net of tax	<u><u>(69,969)</u></u>	<u><u>41,858</u></u>
Attributable to:		
Owners of the Company	(85,485)	29,114
Minority interests	<u>15,516</u>	<u>12,744</u>
	<u><u>(69,969)</u></u>	<u><u>41,858</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2009

		At 30 June 2009 <i>HK\$'000</i> (Unaudited)	At 31 December 2008 <i>HK\$'000</i> (Audited)
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment	9	108,106	129,947
Prepaid lease payments		43,334	76,443
Intangible assets		389,352	608,726
Goodwill		355,260	383,347
Available-for-sale investments		105,163	59,519
Interest in an associate		53,453	55,783
		<u>1,054,668</u>	<u>1,313,765</u>
Current assets			
Inventories		17,014	12,882
Trade and other receivables	10	73,605	105,910
Amount due from a minority shareholder of a subsidiary		237	1,952
Refundable deposits paid for acquisition of subsidiaries		137,494	–
Prepaid lease payments		1,392	1,794
Cash held at financial institutions		117,341	13,170
Bank balances and cash		74,363	135,472
		<u>421,446</u>	<u>271,180</u>
Current liabilities			
Trade and other payables	11	123,150	209,215
Bank borrowings – repayable within one year		32,967	32,716
Other loans – repayable within one year		29,900	42,395
Amounts due to minority shareholders of subsidiaries		7,871	105,802
Tax payables		741	3,587
		<u>194,629</u>	<u>393,715</u>
Net current assets (liabilities)		<u>226,817</u>	<u>(122,535)</u>
		<u><u>1,281,485</u></u>	<u><u>1,191,230</u></u>

		At 30 June 2009 HK\$'000 (Unaudited)	At 31 December 2008 HK\$'000 (Audited)
	<i>Notes</i>		
Capital and reserves			
Share capital	12	225,590	189,090
Reserves		346,478	326,989
Equity attributable to owners of the Company		572,068	516,079
Minority interests		184,023	194,862
		756,091	710,941
Non-current liabilities			
Bank borrowings – due after one year		23,873	27,076
Other loans – due after one year		48,157	45,940
Loans from an associate/a minority shareholder of subsidiaries		–	3,384
Amounts due to minority shareholders of subsidiaries		–	81,427
Convertible bonds	13	393,614	262,335
Government grants		56,191	55,763
Deferred tax liabilities		3,559	4,364
		525,394	480,289
		1,281,485	1,191,230

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2009

1. COMPANY INFORMATION

China Water Industry Group Limited (the “Company”) was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company and its subsidiaries (the “Group”) are principally engaged in provision of water supply and sewage treatment and construction of water supply and sewage treatment infrastructure in the People’s Republic of China (the “PRC”), investments in financial and investment products, and others.

2. BASIS OF PREPARATION

The condensed consolidated interim financial information have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange and with Hong Kong Accounting Standard (“HKAS”) No. 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

3. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the preparation of the condensed consolidated interim financial information for the six months ended 30 June 2009 are consistent with those used in the Group's annual financial statements for the year ended 31 December 2008, except as described below.

In the current interim period, the Group has applied, for the first time, a number of new and revised standards, amendments and interpretations ("new HKFRSs") issued by the HKICPA, which are effective for the Group's financial year beginning on 1 January 2009.

HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Cost
HKAS 32 & HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC)-INT 9 and HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC)-INT 13	Customer Loyalty Programmes
HK(IFRIC)-INT 15	Agreements for the Construction of Real Estate
HK(IFRIC)-INT 16	Hedges of a Net Investment in a Foreign Operation
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning on or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

HKAS 1 (Revised 2007) has introduced a number of terminology changes, including revised titles for the condensed consolidation financial statements, and has resulted in a number of changes in presentation and disclosure.

HKFRS 8 is a disclosure standard that requires the identification of operating segments to be performed on the same basis as financial information that is reported internally for the purpose of allocating resources between segments and assessing their performance. The predecessor standard, HKAS 14 "Segment Reporting", required the identification of two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was business segments.

The application of HKFRS 8 has resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14 (see Note 4).

The adoption of the new and revised HKFRSs has had no material effect on the reported results and financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs issued in 2008 ¹
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 ²
HKAS 27 (Revised 2008)	Consolidated and Separate Financial Statements ¹
HKAS 39 (Amendment)	Eligible Hedged Items ¹
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters ³
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions ³
HKFRS 3 (Revised 2008)	Business Combinations ¹
HK(IFRIC)-INT 17	Distributions of Non-cash Assets to Owners ¹
HK(IFRIC)-INT 18	Transfers of Assets from Customers ⁴

¹ Effective for annual periods beginning on or after 1 July 2009

² Amendments that are effective for annual periods beginning on or after 1 July 2009 or 1 January 2010, as appropriate

³ Effective for annual periods beginning on or after 1 January 2010

⁴ Effective for transfers on or after 1 July 2009

The adoption of HKFRS 3 (Revised 2008) may affect the Group's accounting for business combinations for which the acquisition dates are on or after 1 January 2010. HKAS 27 (Revised 2008) will affect the accounting treatment for changes in a Group's ownership interest in a subsidiary.

The directors of the Company anticipate that the application of other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

4. SEGMENT INFORMATION

The Group has adopted HKFRS 8 "Operating Segments" with effect from 1 January 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (the Group's board of directors) in order to allocate resources to segments and to assess its performance. In contrast, the predecessor standard, HKAS 14 "Segment Reporting" required an entity to identify two sets of segments (business and geographical), using the risks and rewards approach, with the entity's "system of internal financing reporting to key management personnel" serving only as the starting point for the identification of such segments.

In the past, the Group's primary reporting format was business segments. The application of HKFRS 8 has resulted in a redesignation of the Group's reporting segments as compared with the primary reportable segments determined in accordance with HKAS 14.

In prior years, primary segment information was analysed on the basis of five divisions:

- (a) Provision of water supply and sewage treatment;
- (b) Construction of water supply and sewage treatment infrastructure;
- (c) Investment in financial and investment products;
- (d) Trading of watches and accessories; and
- (e) Others.

However, information reported to the directors of the Company for the purposes of resource allocation and performance assessment focuses more specifically on the principal activities of the Group. Accordingly, the Group's reportable segments are redesignated under HKFRS 8.

The Group's reportable segments under HKFRS 8 are therefore as follows:

- (a) Provision of water supply and sewage treatment and construction of water supply and sewage treatment infrastructure in the PRC; and
- (b) Investments in financial and investment products.

In addition to the above reportable segments, trading of ceramic sewage materials and watches and accessories are reported as "all other segments".

Information regarding the above segments is reported below. Amounts reported for the prior year have been restated to conform to the requirements of HKFRS 8.

An analysis of the Group's revenue and results by operating segment for the period under review is as follows:

The unaudited segment information about these businesses is presented below:

For the six months ended 30 June (Unaudited)

	Provision of water supply and sewage treatment and construction of water supply and sewage treatment infrastructure in the PRC		Investments in financial and investment products		All others		Total	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Sales to external customers	80,367	54,592	–	–	3,339	–	83,706	54,592
Segment results	2,405	11,013	(28,611)	6,905	(527)	–	(26,733)	17,918
Unallocated corporate income							207	1,924
Central administrative costs							(15,048)	(6,833)
Change in fair value of convertible bonds							(131,278)	1,461
Discount on acquisition of a business	–	24,166	–	–	–	–	–	24,166
Gain on disposal of subsidiaries/ business	17,054	–	–	–	–	–	17,054	–
Finance costs							(2,911)	(2,719)
Share of results of associates	(2,330)	5,177	–	–	–	–	(2,330)	5,177
(Loss) profit before tax							(161,039)	41,094
Income tax expense							(1,223)	(284)
(Loss) profit for the period							(162,262)	40,810

Segment results represents the (loss) profit earned by each segment without allocation of unallocated corporate income, central administrative costs, change in fair value of convertible bonds, discount on acquisition of a business, gain on disposal of subsidiaries/business, finance costs and share of results of associates. This is the measure reported to the directors of the Company for the purpose of resources allocation and segment performance assessment.

The followings is an analysis of the Group's assets by operating segments:

	30 June 2009 HK\$'000 (Unaudited)	31 December 2008 HK\$'000 (Audited)
Provision of water supply and sewage treatment and construction of water supply and sewage treatment infrastructure	684,183	899,277
Investments in financial and investment products	499,748	108,319
All others	11,605	10,491
Total segment assets	1,195,536	1,018,087

5. (LOSS) PROFIT BEFORE TAX

	Six months ended 30 June 2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)
(Loss) profit before tax has been arrived at after charging (crediting):		
Staff costs including directors' emoluments		
– salaries, wages and other benefits	19,789	11,549
– retirement benefits scheme contributions	1,180	1,461
Total staff costs	20,969	13,010
Amortisation of prepaid lease payments for land use rights	652	270
Amortisation of intangible assets (included in cost of sales)	14,302	–
Impairment loss on other receivables	1,089	–
Cost of inventories recognised as expenses	10,133	6,095
Depreciation of property, plant and equipment	2,993	9,459
Minimum lease payments under operating leases	1,677	1,458
Loss on disposal of property, plant and equipment	117	–
Loss on partial disposal of a subsidiary	–	140
Gain on disposal of convertible bond receivables	–	(1,328)
Bank interest income	(112)	(1,925)
Net exchange loss (gain)	138	(1,070)

6. INCOME TAX EXPENSE

	2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)
PRC Enterprise Income Tax ("EIT")		
– current period	1,223	284

Hong Kong Profits Tax is calculated at 16.5% (2008: 16.5%) of the estimated assessable profit for the six months ended 30 June 2009.

Hong Kong Profits Tax has not been provided for in the condensed consolidated interim financial information for the six months ended 30 June 2009 and 2008 as there was no estimated assessable profit derived from Hong Kong for both periods.

Pursuant to the relevant laws and regulations in the PRC, certain subsidiaries are exempted from PRC EIT for two years from the first profit making year, followed by a 50% reduction for the next three years. The relevant tax rates for the Group's subsidiaries in the PRC range from 15% to 25% (2008: 15% to 25%).

7. (LOSS) EARNINGS PER SHARE

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

	Six months ended 30 June	
	2009	2008
	HK\$'000	HK\$'000
(Loss) earnings	(Unaudited)	(Unaudited)
(Loss) profit for the period attributable to the owners of the Company for the purposes of basic (loss) earnings per share	(161,836)	33,613
Effect of dilutive potential shares:		
– Interest on convertible bonds	481	481
– Change in fair value of convertible bonds	131,278	(1,461)
(Loss) profit earnings for the purposes of diluted (loss) earnings per share	(30,077)	32,633
Number of shares	'000	'000
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	1,914,966	1,890,900
Effect of dilutive potential shares:		
– Share options issued by the Company (Note)	–	142
– Conversion of convertible bonds	338,908	338,908
Weighted average number of ordinary shares for the purpose of diluted loss per share	2,253,874	2,229,950

The denominators used are the same as those detailed above for both basic and diluted (loss) earnings per share.

Note: The computation of diluted loss per share does not assume the exercise of the Company's outstanding share options as exercise price of those options is higher than the average market price for shares for 2009.

No diluted loss per share for the six months ended 30 June 2009 had been presented as the effect of the conversions of the Company's outstanding share options and convertible bonds were anti-dilutive.

8. DIVIDENDS

No dividend was paid or proposed during the six months ended 30 June 2009 and 2008, nor has any dividend been proposed since the end of reporting period.

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2009, the Group acquired property, plant and equipment amounted to approximately HK\$3,392,000 (six months ended 30 June 2008: approximately HK\$41,011,000) and disposed of property, plant and equipment amounted to approximately HK\$25,450,000 (six months ended 30 June 2008: approximately HK\$938,000), of which HK\$25,113,000 (six months ended 30 June 2008: Nil) was disposed of through the disposal of subsidiaries and business.

During the six months ended 30 June 2008, property, plant and equipment with an aggregate amount of approximately HK\$346,118,000 was acquired by the Group through acquisition of subsidiaries.

10. TRADE AND OTHER RECEIVABLES

	At 30 June 2009 HK\$'000 (Unaudited)	At 31 December 2008 HK\$'000 (Audited)
Trade receivables	12,498	21,341
Less: Impairment loss recognised	(4,790)	(4,754)
	7,708	16,587
Other receivables	71,058	93,035
Less: Impairment loss recognised	(8,054)	(6,931)
Deposits and prepayment	2,893	3,219
	73,605	105,910

The Group allows an average credit period of 90 days to 180 days given to the customers.

An aged analysis of trade receivables at the end of reporting period, based on invoice date, and net of impairment losses recognised was as follows:

	At 30 June 2009 HK\$'000 (Unaudited)	At 31 December 2008 HK\$'000 (Audited)
Within 90 days	4,701	10,760
91 to 180 days	1,963	5,192
181 to 365 days	537	511
Over 1 year	507	124
	7,708	16,587

11. TRADE AND OTHER PAYABLES

At the end of reporting period, the aging analysis of the trade payables were as follows:

	At 30 June 2009 HK\$'000 (Unaudited)	At 31 December 2008 HK\$'000 (Audited)
Within 30 days	842	3,110
31 to 90 days	390	1,232
91 to 180 days	2,174	1,946
181 to 365 days	756	1,050
Over 1 year	3,748	21,912
	7,910	29,250
Other payables	115,240	179,965
	123,150	209,215

12. SHARE CAPITAL

	At 30 June 2009 (Unaudited)		At 31 December 2008 (Audited)	
	Number of shares	Amount HK\$'000	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.1 each				
Authorised capital:				
At beginning and end of period/year	<u>4,000,000,000</u>	<u>400,000</u>	<u>4,000,000,000</u>	<u>400,000</u>
Issued and fully paid:				
At beginning of the period/year	<u>1,890,900,000</u>	<u>189,090</u>	<u>1,890,900,000</u>	<u>189,090</u>
Issue of shares (<i>Note</i>)	<u>365,000,000</u>	<u>36,500</u>	<u>–</u>	<u>–</u>
At end of the period/year	<u>2,255,900,000</u>	<u>225,590</u>	<u>1,890,900,000</u>	<u>189,090</u>

Note:

On 19 June 2009, pursuant to a placing and subscription agreement with independent third parties, the Company placed out 365,000,000 new ordinary shares of HK\$0.1 each in the Company at a price of HK\$0.33 per share. A sum of net amount approximately HK\$116,905,000 was raised and used as working capital of the Group.

All new shares issued during the six months ended 30 June 2009 rank pari passu in all respects with other shares in issue.

13. CONVERTIBLE BONDS

On 3 August 2007, the Company issued convertible bonds in aggregate principal amounts of HK\$385 million. The convertible bonds bear interest at the rate of 0.25% per annum, starting from 3 August 2007, payable semi-annually in arrear on 3 February and 3 August each year. The convertible bonds may be converted at the option of the convertible bonds holder at a conversion price of HK\$1.42 per ordinary share at any time on or after 13 September 2007 and up to 27 July 2012.

The conversion price was subsequently adjusted to HK\$1.136 on 3 February 2008, pursuant to the fulfillment of certain conditions stated in the bond purchase agreement dated 30 July 2007.

Since the conversion price for the bonds is subject to change, the conversion will not result in settlement by the exchange of a fixed number of equity instruments. Therefore, upon application of HKAS 32 and HKAS 39, it was determined that the bonds do not contain any equity component and the entire bonds were designated as “financial liabilities at fair value through profit or loss” which requires that bonds to be carried at fair value at the end of reporting period and the changes in fair values are recognised in the condensed consolidated income statement. During the period ended 30 June 2009, a loss on changes in its fair value of approximately HK\$131,278,000 is recognised in the condensed consolidated income statement (six months ended 30 June 2008: gain of HK\$1,461,000).

The fair value of the bonds at the end of each reporting period was calculated using the market value basis.

	30 June 2009	31 December 2008
Stock price	HK\$0.31	HK\$0.098
Exercise price	Subject to adjustment but not less than 80% of HK\$1.42	Subject to adjustment but not less than 80% of HK\$1.42
Expected volatility	57.67%	58.16%
Risk-free rate	1.335%	0.920%
Option life	3.1 years	3.592 years

14. CAPITAL COMMITMENT

	At 30 June 2009 HK\$'000 (Unaudited)	At 31 December 2008 HK\$'000 (Audited)
Capital commitments contracted but not provided for, in respect of acquisition of intangible assets and property, plant and equipment	460	5,388

15. OPERATING LEASE COMMITMENTS

At the end of reporting period, the Group had future minimum lease payments under non-cancellable operating leases which fall due as follows:

	At 30 June 2009 HK\$'000 (Unaudited)	At 31 December 2008 HK\$'000 (Audited)
Within one year	2,081	1,964
In the second to fifth years, inclusive	805	1,228
	2,886	3,192

16. SHARE-BASED PAYMENT TRANSACTIONS

The Company has a share option scheme for eligible directors and employees of the Group. Details of the share options outstanding are as follows:

	Number of share options Six months ended 30 June 2009	2008
Outstanding at the beginning of the period	18,000,000	18,000,000
Granted/exercised during the period	—	—
Outstanding at the end of the period	18,000,000	18,000,000

No share options were granted/exercised during the six months ended 30 June 2009 and 2008.

17. DISPOSAL OF SUBSIDIARIES

- (a) On 2 April 2009, the Group disposed of its 100% interests in Longwide Investment Limited and its subsidiaries (the “Longwide Group”) and a shareholder’s loan amounting to approximately HK\$57,000 to Bright Blue Investments Limited, an independent third party, at a consideration of approximately HK\$50,000,000. The net assets of Longwide Group at the date of disposal were as follows:

	<i>HK\$’000</i>
Net assets disposed of:	
Property, plant and equipment	22,191
Prepaid lease payments	33,190
Intangible assets	205,109
Inventories	2,008
Trade and other receivables	23,733
Bank balances and cash	3,032
Trade and other payables	(84,470)
Amount due to a minority shareholder of a subsidiary	(163,074)
Amount due to the shareholder	(57)
Loan from a minority shareholder of a subsidiary	(3,379)
Deferred tax liabilities	(735)
Minority interests	(19,239)
	<u>18,309</u>
Shareholder’s loan disposed of	57
Exchange reserve realised on disposal of subsidiaries	(5,007)
Attributable goodwill	28,087
Gain on disposal	<u>8,554</u>
Total consideration	<u><u>50,000</u></u>
Satisfied by:	
Cash	<u><u>50,000</u></u>
Net cash inflow arising on disposal:	
Cash consideration received	50,000
Bank balances and cash disposed of	<u>(3,032)</u>
	<u><u>46,968</u></u>

Note:

The Longwide Group disposed of during the six months ended 30 June 2009 had contributed approximately HK\$8,066,000 to the Group’s turnover and contributed approximately HK\$7,283,000 to the Group’s loss for that period.

- (b) On 15 April 2009, the Group disposed of its assets and liabilities of a branch of Jining City Haiyuan Water Treatment Company Limited* (“Jining Haiyuan”), an indirect non wholly-owned subsidiary of the Company at a consideration of approximately HK\$10,000,000. The assets and liabilities of Jining Haiyuan at the date of disposal were as follows:

	<i>HK\$'000</i>
Net assets and liabilities disposed of:	
Property, plant and equipment	2,922
Intangible assets	28,016
Inventories	7
Trade and other receivables	1,844
Bank balances and cash	599
Trade and other payables	(31,022)
Amount due to a minority shareholder of a subsidiary	(104)
Deferred tax liabilities	(70)
Minority interests	(658)
	<u>1,534</u>
Exchange reserve realised on disposal of business	(34)
Gain on disposal	<u>8,500</u>
Total consideration	<u><u>10,000</u></u>
Satisfied by:	
Cash	<u><u>10,000</u></u>
Net cash inflow arising on disposal:	
Cash consideration received	10,000
Bank balances and cash disposed of	<u>(599)</u>
	<u><u>9,401</u></u>

Note:

Jining Haiyuan disposed of during the six months ended 30 June 2009 had contributed approximately HK\$1,442,000 to the Group's turnover and contributed approximately HK\$89,000 to the Group's loss for that period.

18. POST BALANCE SHEET EVENT

- (a) On 6 August 2009, the Company entered into a placing and subscription agreement with independent third parties to place up to 450,479,000 ordinary shares of HK\$0.1 each in the Company at a price of HK\$0.295 per share. On 14 August 2009, a total of 450,479,000 shares were issued under such placement arrangement.
- (b) On 27 April 2009, Swift Surplus Holdings Limited* (“Swift Surplus”) (迅盈控股有限公司), a direct wholly-owned subsidiary of the Company entered into an agreement with independent third parties, Top Vision Management Limited* (達信管理有限公司) and Shenzhen City South China Waterworks Group Co., Ltd.* (深圳市華南水務集團有限公司) (the “Vendors”), pursuant to which the Swift Surplus has conditionally agreed to acquire 8 sewage treatment plants in Guangdong Province and 1 water supply plant in Hebei Province, at a consideration of HK\$660 million from the Vendors. Owing to the litigation and seizure of the certain target companies yet to be resolved, the Swift Surplus and Vendors entered into a termination agreement on 18 September 2009 to suspend the acquisition with immediate effect. The directors of the Company are of view that the termination will not cause any material adverse impact on the existing business of the Group.

- (c) On 18 September 2009, Swift Surplus entered into an agreement with independent third parties Sihui South China Waterworks Development Co., Ltd.* (四會市華南水務發展有限公司), Shenzhen City South China Waterworks Group Co., Ltd.* (深圳市華南水務集團有限公司) and Da Xin Waterworks Management (Huizhou) Co., Ltd.* (達信水務管理(惠州)有限公司), pursuant to which Swift Surplus has conditionally agreed to acquire 70% of registered capital of Foshan City Gaoming Huaxin Sewage Treatment Company Ltd.* (佛山市高明區華信污水處理有限公司); 70% registered capital of Tangshan City Hongxiang Waterworks Limited* (唐山市鴻翔水務有限公司); and 100% interest of Boluo Phase II Project Company (博羅二期項目公司) respectively at a total consideration of HK\$170,000,000. This acquisition has not been completed as of the report date.

* The English name is for identification purpose only.

19. CONTINGENT LIABILITY

In November 2007, the People's Government of Danzhou City and Super Sino Investment Limited ("Super Sino"), an indirectly wholly-owned subsidiary of the Company, entered into a net asset transfer agreement, pursuant to which all assets and liabilities of Danzhou City Water Company*, an independent third party, are transferred to Super Sino. On 26 June 2008, Super Sino was notified that Agricultural Bank of China, Danzhou Branch filed a claim regarding the liabilities transferred by Danzhou City Water Company* with the Intermediate People's Court of Hainan against Danzhou City Water Company* and Super Sino for the repayment of the loan principal of approximately HK\$29,557,000 (equivalent to RMB26,000,000) and the interests of approximately HK\$45,097,000 arising from the defendants, Danzhou City Water Company* and Super Sino to the plaintiff. As advised by the Company's solicitor, the borrowing contract lawsuit is under friendly out-of-court negotiation and is expected to reach a settlement agreement to reduce loan interests and extend the repayment period. The respective loan principal and interests had been recorded in the Group's unaudited condensed consolidated interim financial information. The mediation process is in progress. The directors of the Company believed that the lawsuit is unlikely to have material adverse financial impact on the Group.

20. RELATED PARTY TRANSACTIONS

The balances and transactions with related parties at the end of reporting period are disclosed elsewhere in the consolidated financial statements.

Compensation of key management personnel

The remuneration of directors and other members of key management during the period was as follows:

	2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)
Short-term benefits	2,021	2,024
Post-employment benefits	40	30
	2,061	2,054

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

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

Financial Results

Net loss for the interim period amounted to HK\$162.26 million, which represented a drastic downturn of HK\$203.07 million as compared with the net profit of HK\$40.81 million in the corresponding period in 2008. The unanticipated change in financial performance was mainly caused by a loss of HK\$28.61 million from disposal of debt securities and the accounting treatment of certain financial instruments, it could be analyzed as follows:

- a loss of HK\$131.28 million from the change in fair value of convertible bonds issued in previous years; and
- a discount on acquisition of a subsidiary of HK\$24.17 million had been recognized in previous interim period.

The loss of the Group before the fair value adjustment on convertible bonds for the interim period ended would be HK\$30.98 million.

Revenue and Gross Profit

For the six months ended 30 June 2009, the Group recorded a solid growth in revenue and gross profit of HK\$83.71 million and HK\$24.72 million respectively. This represented an increase of 53.33% in revenue and 6.51% in gross profit as compared to the corresponding period last year. The growth in revenue and gross profit were mainly attributable from the water supply segment. The main revenue contributors for the interim period were Yichun Water Industry Co., Ltd. (“Yichun Water”), Danzhou Qingyuan Water Industry Company Limited* (“Danzhou Water”) and Yingtan Water Supply Co., Ltd. (“Yingtan Water”), which collectively accounted for 76.49% of total turnover and 106.95% of total gross profit.

Other operating income

Other operating income comprised bank interest income of HK\$0.11 million and other operating income recorded in some water supply plants of HK\$1.86 million. Other operating income has dropped by HK\$4.56 million as bank interest income and foreign exchange gain had reduced by HK\$1.81 million and HK\$1.21 million respectively. In addition, no gain on disposal on convertible bonds receivable of HK\$1.33 million had been recognized in previous interim period.

Gain on disposal of subsidiaries

During the interim period, the Group has disposed of its entire equity interest in Jining City Haiyuan Water Treatment Company Limited*’s branch office and Longwide Investment Limited (“Longwide Group”) to independent third parties at consideration of HK\$10 million and HK\$50 million respectively. Each of the disposals has contributed approximately HK\$8.55 million and HK\$8.5 million to the Group’s results.

Selling and distribution costs and Administrative expenses

Selling and distribution costs and Administrative expenses have collectively increased by HK\$13.81 million mainly due to the fact that the Longwide Group and the Yingtian Water has commenced operation in full swing during the period.

Net loss on disposal of debt securities

Net loss of HK\$28.61 million has been recognized from the disposal of debt securities. These securities were mainly held by iMerchants Limited (“iMerchants”), a subsidiary of the Group whose shares are listed on the Growth Enterprise Market of the Stock Exchange.

Share of results from associate

For the interim period under review, the Group shared loss of HK\$2.33 million from Jinan Hongquan Water Production Co., Ltd. (濟南泓泉制水有限公司) (“Jinan Hongquan”). The Group has 35% equity interests in Jinan Hongquan.

BUSINESS SEGMENTS REVIEW

Water Supply and Sewage Treatment business in China

Today, the environmental protection is a principal area of the country’s state policies for China, it emphasizes the scientific development and focus on beneficial development of the economy and resources of the environment. To cope with the implementation of environmental protection policy, the Chinese Government is allocating considerable funds and resources in waste water treatment and water conservation. Given the favourable government policies, these provide the Group with the enormous room to grow into environmental protection business. In addition, the open of the water supply industry and water tariff reforms have attracted new investments and stimulated existing water-service providers to improve and enhance their service quality and efficiency. This benefits the Groups in identifying local strategic partners for further expansion in the PRC’s water supply market. With new policies on controlling water pollution being mandated, this has provided additional incentive for us to further participate in sewage treatment projects. All of these favorable factors reflect that the increasing importance and concerns for water supply and sewage treatment for people’s livelihood will secure long term and elevating support from both the local and the Chinese Government. The Group will capture all these favorable factors and accelerate the pace and put greater efforts in investing the PRC water supply and sewage treatment projects and developing in environmental protection related industry. Looking into the future, we believed that the Mainland market will provide a significant source of revenue in the long run and act as a catalyst for the Group’s future growth.

Water supply business analysis

During the period, the Group’s revenue and profit from water supply business have grown steadily and continuously. Revenue from the segment amounted to approximately HK\$41.53 million, representing 62.69% increase as compared with the corresponding period of last year. The major contributors were Yichun Water, Danzhou Water and Yingtian Water which totally accounted for 74.58% of the total revenue. Gross profit from water supply business was approximately HK\$7.90 million.

Sewage treatment business analysis

During the period, revenue from sewage treatment business amounted to approximately HK\$10 million (2008: HK\$12.45 million). Gross profit from sewage treatment business was approximately HK\$4.37 million (2008: HK\$7.66 million). The Group's sewage treatment plants are located at Yichun City in Jiangxi Province, Jinxiang County and Linyi City in Shandong Province.

Construction of water supply and sewage treatment infrastructure analysis

During the period, revenue and profit from construction of water supply and sewage treatment infrastructure projects amounted to approximately HK\$30.09 million (2008: HK\$16.62 million) and HK\$16.25 million (2008: HK\$10.53 million) respectively. The increase in revenue and gross profit was mainly contributed by Yingtan Water.

As at 30 June 2009, the Group owns 6 water supply plants and 2 sewage treatment plants in the PRC. The aggregate water supply capacity of these water supply plants reaches 1,960,000 tonnes per day. The sewage treatment plants are capable of disposing 70,000 tonnes sewage water per day. The Group's footprints in water supply and sewage treatment businesses can be found in Jiangxi Province, Anhui Province, Shandong Province, Henan Province and Hainan Province. Subsequent to the interim period, the Group has further acquired 2 sewage treatment plants in Guangdong Province and 1 water supply plant in Hebei Province. They have enlarged the Group's daily sewage treatment and water supply capacities by 50,000 tonnes and 60,000 tonnes respectively.

Investment in financial and investment products and the development in ceramic sewage material business

Under the influence of global financial turmoil, year 2009 has been a challenging year for iMerchants. The operating results for the Interim Period reported a loss of HK\$28.3 million as compare to a profit of HK\$7.49 million in the corresponding period of 2008. To minimize risk on the volatility and uncertainty on the financial and securities product, the management of iMerchants has switched its investment to the PRC, where the fiscal policy encourages in shifting the country's focus from export growth to consumer spending. Recent years, the Chinese Government stimulus plans are in place to support domestic demands which offsetting the impact on the export-oriented economy from the recession in world demands. While the state supporting a positive growth rate for the economy by increasing capital injection for infrastructure and environmental sector, the iMerchants has acquired ceramic sewage material business so as to enjoy the policy support. In the first half of year 2009, the newly acquired ceramic sewage material business recorded a revenue and gross profit of HK\$3.45 million and HK\$1.09 million respectively. Most of the remaining financial investments in iMerchants would be held for long-term purpose. iMerchants management believes that the fair value of these investments would recover gradually in the long run. The sale and manufacturing of sewage material business was believed to have a brighter future since demand for cleaner environment and water has been growing steadily and continuously.

Although the macro economic outlook is still very dire for year 2009 and economic visibility remains limited by the credit market turmoil, iMerchants is optimistic about its investments in the PRC. Subsequent to the period, iMerchants has acquired Supreme Luck International Limited which is mainly in provision of business advisory services to the Shenzhen Careall Capital Investment Company Limited ("Careall Capital"). Careall Capital is principally engaged in business relating to venture investment in the PRC. The acquisition provides a good opportunity for iMerchants to participate in the securities investment business in the PRC through the cooperation with Careall Capital. As the economy is expected to recover soon, it is expected that the continual growth of the PRC economy shall bring improving yields and values for Careall Capital and therefore will have a positive impact on iMerchants' profitability and bring the benefit to the Group in return.

Trading of watches and accessories business

Since the closure of image shop, the management has discontinued investment in business of watches and accessories. Full provision has been made on this business segment.

LIQUIDITY AND FINANCIAL RESOURCES

During the period, the management has maintained a healthy financial position in the Group. As at 30 June 2009, cash and bank balance increased to HK\$191.70 million (compare with HK\$148.64 million on 31 December 2008), mainly because of the funds raised from top-up placement. The Group has steady cash flows generating from the water supply and investment in financial products business segment. The Group has been well positioned to expand further in the PRC water industry and to take on other potential investment opportunity.

Total borrowings of the Group as at 30 June 2009 were HK\$592.57 million (compare with HK\$656.84 million on 31 December 2008). They comprised of the Convertible Bonds (“CB”) of HK\$393.61 million (2008: HK\$262.34 million), long-term borrowings of HK\$72.03 million (2008: HK\$157.83 million), and government grants of HK\$56.19 million (2008: HK\$55.76 million). The CB was denominated in HK dollars while others were mainly denominated in Renminbi and the interest rates of which were fixed.

The Group’s gearing ratio as at 30 June 2009 was 48.78% (compare with 56.43% on 31 December 2008), which was calculated by dividing total liabilities of HK\$720.02 million over total assets of the Group of HK\$1,476.11 million.

At as 30 June 2009, the Group had a net current assets of HK\$226.82 million (2008: net current liabilities of HK\$122.54 million). The improvement of liquidity status of the Group was due to disposal the Longwide Group during the period. There was HK\$134.18 million net current liabilities incurred by the Longwide Group in last year.

CAPITAL RAISING AND USE OF PROCEEDS

To further strengthen its financial base, the Company has made two top-up placements as of the report date. There were 365,000,000 new shares placed on 8 June 2009 at HK\$0.33 per placing share on a fully underwritten basis and generated the net process of approximately HK\$116.905 million on 19 June 2009. Another 450,479,000 new shares were placed on 6 August 2009 at placing price of HK\$0.295 per share on a best effort basis. The Top-up Placement had been completed on 14 August 2009 and approximately HK\$128.39 million of the net proceeds raised from the Top-up Subscription.

As of the end of reporting period, the Group had incurred capital expenditures amounted to HK\$137.49 million (2008: HK\$183.57 million). They were mainly spent on strategic acquisitions during the period including HK\$51.50 million for acquiring water supply projects in the PRC and HK\$85.99 million as a deposit paid for purchasing the investment holding company by iMerchants. The unutilized amounts will continue to be invested in the committed projects and general working capital of the Group.

FOREIGN EXCHANGE RISK

The Group's exposure to foreign exchange risk is minimal as most of the Group's subsidiaries operate in the PRC and most of transactions, assets and liabilities are denominated in Renminbi. Accordingly, the Group does not have derivative financial instruments to hedge its foreign currency risks.

CAPITAL COMMITMENTS

As at 30 June 2009, the Group has the capital commitments contracted but not provided for acquisition of property, plant and equipment approximately HK\$0.46 million (2008: HK\$5.39 million).

CONTINGENT LIABILITIES

As at 30 June 2009, the Group did not have any significant contingent liabilities (2008: Nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2009, the Group had approximately 966 full-time employees (2008: 2,662 full-time employees). Most of them station in the PRC while the remaining in Hong Kong. The remuneration package of the employees is determined by various factors including the employees' experience and performance, the market condition, industry practice and applicable employment law.

MAJOR EVENTS DURING THE PERIOD UNDER REVIEW

Acquisition of subsidiaries and associate

On 8 April 2009, iMerchants through its wholly-owned subsidiary of Growwise Holdings Limited (智生控股有限公司), entered into a sale and purchase agreement with Rightshine Holdings Limited ("Rightshine") (正輝控股有限公司), to acquire the entire issued share capital of Supreme Luck International Limited ("Supreme") (至福國際有限公司) at a consideration of HK\$900,000,000. The Consideration will be satisfied by cash and/or the issuance of promissory note and the allotment of consideration shares, convertible preference shares and convertible bonds.

On 27 April 2009, Swift Surplus Holdings Limited ("Swift Surplus") (迅盈控股有限公司), a direct wholly-owned subsidiary of the Company entered into the agreement with independent third parties, Top Vision Management Limited (達信管理有限公司) and Shenzhen City South China Waterworks Group Co., Ltd.* (深圳市華南水務集團有限公司), pursuant to which the Swift Surplus has conditionally agreed to acquire 8 sewage treatment plants in Guangdong Province and 1 water supply plant in Hebei Province, at a consideration of HK\$660 million. Owing to the litigation and seizure of the certain target companies yet to be resolved, the Swift Surplus and Vendors entered into the Termination Agreement on 18 September 2009 to suspend the acquisition with immediate effect. The Directors are of view that the termination will not cause any material adverse impact on the existing business of the Group.

Disposal of subsidiary and branch office

On 26 March 2009, China Water (HK) entered into the Agreement with Bright Blue Investments Limited (皓藍投資有限公司), an independent acquirer, to dispose the sale loan of and the entire issued share capital in Longwide Investment Limited and its subsidiaries (“Longwide Group”), at a consideration of HK\$50 million. Longwide Group is engaged in provision of water supply and sewage treatment business in the PRC. This transaction was completed on 2 April 2009.

On 27 March 2009, Jining City Haiyuan Water Treatment Company Limited* (“Jining Haiyuan”) (濟寧市海源水務有限公司), an indirect owned subsidiary of the Company, disposed all assets and liabilities in branch office of Liang Shan County, Jining City, the PRC to Liu Qing Chen, an independent acquirer, at a consideration of HK\$10 million. This transaction was completed on 15 April 2009.

The Group no longer holds any interest in Longwide Group and branch office in Liang Shan County thereafter.

Disposal of assets in subsidiary

On 3 December 2007 and 28 January 2008, the iMerchants and iMerchants Hong Kong Limited entered into the disposal agreement and the supplemental agreement, respectively, pursuant to which the iMerchants conditionally agreed to sell and iMerchants Hong Kong Limited conditionally agreed to purchase the securities and assets at a total consideration of approximately HK\$39.4 million. The Disposal was completed on 29 May 2009.

MAJOR EVENTS SUBSEQUENT TO THE PERIOD ENDED

Acquisition of subsidiaries

On 18 September 2009, Swift Surplus entered into the agreement with Sihui South China Waterworks Development Co., Ltd.* (四會市華南水務發展有限公司), Shenzhen City South China Waterworks Group Co., Ltd.* (深圳市華南水務集團有限公司) and Da Xin Waterworks Management (Haizhou) Co., Ltd.* (達信水務管理(惠州)有限公司), pursuant to which the Swift Surplus has conditionally agreed to acquire 70% of registered capital of Foshan City Gaoming Huaxin Sewage Treatment Company Ltd.* (佛山市高明區華信污水處理有限公司); 70% registered capital of Tangshan City Hongxiang Waterworks Limited* (唐山市鴻翔水務有限公司); 100% interest of Boluo Phase II Project Company (博羅二期項目公司) respectively. This acquisition has not been completed as of the report date.

Letter of Intent

On 9 September 2009, the Mark Profit Group Holdings Limited (萬利控股有限公司), being a wholly-owned subsidiary of the Company, entered into a non-legally binding memorandum of understanding with the Shenzhen City South China Waterworks Group Co., Ltd.* (深圳市華南水務集團有限公司) in relation to a possible acquisition of 70% of the Tangshan City Hongxiang Waterworks Limited* (“Tangshan”) (唐山市鴻翔水務有限公司). Tangshan has a project namely Tangshan City Harbourfront Industrial Estate Project* (“Tangshan project”) (唐山市臨港工業園區供水項目). The annual aggregate water supply capacity of Tangshan project is approximately 20,000,000 m³, sterilization pools and water supply pipelines networks, etc. Tangshan Project is still under construction and is expected to be completed on or before 31 December 2010. It is currently expected that Tangshan Project will commence operation by 30 June 2011. The agreement relating to the acquisition of Tangshan was signed on 18 September 2009.

PENDING LITIGATION

(i) Technostore Limited, a subsidiary of the Company

On 30 May 2007, a Petition was filed under sections 168A and 177 of the Company Ordinance (Cap. 32) to wind-up Technostore Limited (“Technostore”), a company in which the Company held 50.01% of the issued shares. The Petition was commenced by Mr. Mao Chi Fai (“Petitioner”), the minority shareholder of Technostore holding 49.99% of the issued shares.

Following court hearings regarding the winding-up proceeding in preceding year, on 29 August 2008, the court has made an order to appoint Kenny Tam & Company, Certified Public Accountant as a liquidator of the Technostore and Happy Hour Limited and Mao Chi Fai become members in the committee of inspection. The matter is still in the liquidation process and is handled by Official Receiver’s Office. Up to 25 September 2009, the latest development in the liquidation process reported by the Liquidator was the stock to be sold by public tender and the timing of when the shareholders can split the money are yet to be determined subject to the Valuer’s calculation. The directors of the Company believe that no material future outflows resources from the Group is expected and sufficient provision on assets related to Technostore have been provided. It is unlikely to have material adverse financial impact on the Group.

(ii) Super Sino Investment Limited, an indirect wholly-owned subsidiary of the Company

On 6 November 2007, the People’s Government of Danzhou City and Super Sino Investment Limited (“Super Sino”) entered into net assets transfer agreement, pursuant to which all assets and liabilities of Danzhou City Water Company* (儋州市自來水公司) are transferred to Super Sino. On 26 June 2008, Super Sino notified that Agricultural Bank of China, Danzhou Branch filed a claim regarding the liabilities transferred by Danzhou City Water Company* with the Intermediate People’s Court of Hainan against Danzhou City Water Company*, Super Sino and the third party of the People’s Government of Danzhou City for the repayment of the loan principal of RMB26 million and the interests HK\$45.10 million arising from the defendants of Danzhou City Water Company* and Super Sino to the plaintiff. As advised by the Company’s solicitor, the borrowing contract lawsuit is under friendly out-of-court negotiation and is expected to reach a settlement agreement to reduce loan interests and extend the repayment period. The respective loan principal and interests had been recorded in the Group’s unaudited condensed consolidated interim financial information. The mediation process is in progress. The directors of the Company believed that the lawsuit is unlikely to have material adverse financial impact on the Group.

Save and except for this, the Company is not aware of any other significant proceedings instituted against the Company.

PROSPECTS

Being a vast and populous nation lack of water resources, China has made great efforts in tackling problems of water demand and supply. As marketization reform in China's water supply industry has run its course for ten years, a market structure composed of diversified investors has been created, and accordingly market forces exert increasing influence on the industry. The bottlenecks which prevent the water supply industry from further development, such as water price and other issues, is about to be removed, and preparation for a wide range of price increase is currently underway, going through processes of technical evaluation, formulating relevant policies and soliciting public opinions.

On the other hand, global economy is striving to recover from the aftermath of the global financial tsunami, with China's economy standing in the limelight. Benefiting from the huge economic stimulus package promulgated by the Chinese government, China has successively invested trillions of Renminbi in the infrastructure industries of the country. Particularly, infrastructure industries (including water supply industry) and environmental protection industries (including the sewage treatment industry) benefit substantially from such investments. This represents a good opportunity of rapid expansion for the water supply industry in the PRC.

It is so thankful to the correct decisions made by the Board of the Group, the Group diversified its business to water industry three years ago and became a pioneer in the process of marketization of the industry. Currently the Group has completed the initial key operational layout across the nation, while other operational indicators, such as population served, water supply and sewage treatment capacity, have reached a satisfied level with each operation yielding results. These achievements have laid a solid foundation for the Group to grasp the rare opportunity endowed by history and achieve a leap-forward development.

While committed to its existing water supply projects and raising efficiency, the Group will carefully select water supply projects with development potential as its targets for merger or acquisition, with a view to further expand the Group's water supply service area and the scale of its water supply operations. While expanding its water supply business, the Group is proactively implementing the merger, acquisition and construction of sewage treatment projects, with a view to rapidly increase sewage treatment capacity and increase the proportion of sewage treatment business to the total business of the Group so as to broaden the Group's profit base. Meanwhile, the Group is also dedicated to succeed in the establishment, merger or acquisition of water project service entities, with a view to improve the water industry structure of the Group.

The Board of the Group presumes that the most difficult time of the financial crises has passed. The successful fund-raising completed recently has fully shown the passion and support given to the water services industry by the financial market as it always does. As for the water services industry, an opportunity for large-scale expansion has come. The Group believes it is well prepared for capitalising on such opportunity to achieve a leap-forward development.

SUPPLEMENTARY INFORMATION

INTERIM DIVIDENDS

The Board does not recommend payment of interim dividends for the six months ended 30 June 2009 (six months ended 30 June 2008: Nil).

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 30 June 2009, the interests and short positions of the Directors and Chief Executive of the Company, or their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), the "SFO") which had been notified to the Company and the stock exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were deemed or taken to have under such provisions of the SFO) or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in the Rules Governing the Listing of Securities on the Stock exchange (the "Listing Rules"), to be notified to Company and the Stock Exchange were as follows:

(i) Interest in the Shares

Name of director	Nature of interest	Number of issued ordinary shares held	Total interest	Percentage of the issued share capital of the Company
Chu Yin Yin, Georgiana	Beneficial owner	5,432,000	5,432,000 (L)	0.24%
Yang Bin	Interest of controlled corporation	365,000,000	365,000,000 (L) (Note)	16.18%

For the purpose of this section, the shareholding percentage in the Company is calculated on the basis of 2,255,900,000 Shares in issue as at 30 June 2009.

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

Note: These China Water Shares are held by Boost Skill Investments Limited (as to 180,000,000 Shares) and its wholly owned subsidiaries, Favor Jumbo Investments Limited (as to 130,000,000 Shares) and Sure Ability Limited (as to 55,000,000 Shares). Mr. Yang Bin is interested in 60% of the equity interest in Boost Skill Investments Limited.

(ii) Interest in Underlying Shares

Name of director	Exercise Price HK\$	Exercise Period	Number of underlying Shares (under share options of the Company)	Approximate shareholding % (Note)
Chu Yin Yin, Georgiana	0.335	11 January 2007 to 10 January 2017	3,000,000	0.13
Liu Bai Yue	0.420	17 January 2007 to 16 January 2017	5,000,000	0.22

Note: For the purpose of this section, the shareholding percentage in the Company is calculated on the basis of 2,255,900,000 Shares in issue as at 30 June 2009.

Save as disclosed above, as at 30 June 2009, none of the directors or Chief executive of the Company had any interest or short position in any shares, underlying shares or debenture of the Company or any of its associated corporations (as defined in Part XV of the SFO) which are required to be notified to the Company and the stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests which they were taken or deemed to have under SFO) or were recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2009, as far as known to the Directors or Chief Executive of the Company, the following persons (other than a Director or chief executive of the Company disclosed under the section “Directors’ and Chief Executive’s Interests in Securities” above) had an interest in the shares and underlying shares of the Company which would fall to be disclosed to the company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of Shares carrying rights to vote in all circumstances at general meetings of the Company or any other member of the Group:

Name of shareholder	Capacity	Number of issued Shares held	Approximate percentage of the issued share capital of the Company
Li Jian Ping	Interest of controlled corporation	365,000,000 (Note 1)	16.18%
Boost Skill Investments Limited	Interest of controlled corporation	185,000,000 (Note 2)	8.20%
	Beneficial owner	180,000,000	7.98%
Abax Arhat Fund	Interest of controlled corporation	228,873,239 (Note 3)	10.15%
Abax Claremont Limited	Interest of controlled corporation	228,873,239 (Note 3)	10.15%

Name of shareholder	Capacity	Number of issued Shares held	Approximate percentage of the issued share capital of the Company
Abax Global Capital	Interest of controlled corporation	228,873,239 (Note 3)	10.15%
Abax Global Opportunities Fund	Interest of controlled corporation	228,873,239 (Note 3)	10.15%
Abax Upland Fund, LLC	Interest of controlled corporation	228,873,239 (Note 3)	10.15%
Abax Lotus Limited	Beneficial owner	228,873,239 (Note 3)	10.15%

Note 1: These Shares are held by Boost Skill Investments Limited (as to 180,000,000 Shares), Favor Jumbo Investments Limited (as to 130,000,000 Shares) and Sure Ability Limited (as to 55,000,000 Shares). Mr. Yang Bin, an executive director, and Mr. Li Jian Ping is interested in 60% and 40% respectively of the equity interest in Boost Skill Investments Limited.

Note 2: These Shares are held by Favor Jumbo Investments Limited (as to 130,000,000 Shares) and Sure Ability Limited (as to 55,000,000 Shares).

Note 3: These 228,873,239 underlying Shares are those Shares which would be issued upon exercise of the convertible rights attaching to the convertible bonds issued by the Company as disclosed in the announcement of the Company dated 31 July 2007. As the issued share capital of Abax Lotus Limited is held indirectly or directly by Abax Arhat Fund, Abax Claremont Limited, Abax Global Capital, Abax Global Opportunities Fund and Abax Upland Fund, LLC, they are deemed to be interested in the underlying Shares under SFO.

Note 4: For the purpose of this section, the shareholding percentage in China Water is calculated on the basis of 2,255,900,000 Shares in issue as at 30 June 2009.

Save as disclosed herein, there is no person known to the Directors or Chief Executive of the Company, no other person (other than a Director or chief executive of the Company), who, as at 30 June 2009, had an interest or short position in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 10% or more of the normal value of any class of shares carrying rights to vote in all circumstances at general of the Company or any other members of the group and none of the Directors held any directorship or employment in a company which has an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

SHARE OPTION SCHEME

The Company had adopted share option scheme on 17 January 2002 (the “Scheme”). During the six months ended 30 June 2009, no shares options were granted by the Company. Other than the said share option scheme, the Company and its subsidiaries have not adopted any share option scheme. Details of the movements in the share options during the period ended 30 June 2009 under the Scheme are as follows:

Name or category of participant	Date of grant	Outstanding as at 1 January 2009	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 30 June 2009	Exercisable period	Exercise price per share of the Company HK\$
<i>Directors</i>								
Chu Yin Yin, Georgiana	11 January 2007	3,000,000	–	–	–	3,000,000	11 January 2007 to 10 January 2017	0.335
Liu Bai Yue	17 January 2007	5,000,000	–	–	–	5,000,000	17 January 2007 to 16 January 2017	0.420
		8,000,000				8,000,000		
Other eligible participant (Note)	11 January 2007	10,000,000	–	–	–	10,000,000	11 January 2007 to 10 January 2017	0.335
Total as at 30 June 2009		18,000,000	–	–	–	18,000,000		

Note: On 21 November 2008, Mr. Sze Chun Ning, Vincent (“Mr. Sze”) has resigned as an Executive Director and deputy managing director of the Company but remains as a director of subsidiaries of the Company. In accordance with the adopted Share Option Scheme, Mr. Sze is still entitled to the granted share option benefit. To reflect appropriate category of participant, it was reclassified Mr. Sze from director to an other eligible participant.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S SECURITIES

During the six months ended 30 June 2009, the Company had not redeemed, and neither the Company nor any of its subsidiaries had purchased or sold any of the Company’s listed securities.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company’s articles of association or the laws of Cayman Islands which would oblige the Company to offer new shares on a pro-rata basis to existing Shareholders.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this interim report, the Company has maintained the prescribed public float under the Listing Rules.

CORPORATE GOVERNANCE PRACTICES

The Group recognizes the importance of transparency and accountability to shareholders. The Board will continually review and enhance its corporate governance practices to ensure that they meet shareholders' expectation and comply with relevant standards.

During the six months ended 30 June 2009, the corporate governance practices adopted by the Company has complied with the code provisions set out in the Code of Corporate Governance Practices contained in Appendix 14 of the Listing Rules (the "CGP Code") except for the following deviation from the following provisions of the CGP Code:

- Code provision A4.1 stipulates that non-executive Directors should be appointed for a specific term. However, none of the existing non-executive Directors of the Company (including independent non-executive) is appointed for a specific term since all non-executive Directors of the Company (including independent non-executive) are subject to retirement by rotation and re-election at annual general meetings of the Company in line with the Company's Articles of Association. The Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CGP Code.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own Code of Conduct regarding securities transactions by the Directors of the Company. All Directors have confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2009.

AUDIT COMMITTEE

The Audit Committee comprises 3 independent non-executive directors of the Company, has reviewed with the management of the Company the accounting principles and practices adopted by the Group and discussed auditing internal controls and financial reporting matters including the review of the unaudited interim financial statements for the six months ended 30 June 2009.

REMUNERATION COMMITTEE

The Remuneration Committee comprises 2 independent non-executive directors of the Company and 1 executive director of the Company, is responsibility for reviewing and evaluating the remuneration polices of executive directors and senior management and making recommendations to the Board from time to time.

INVESTMENT COMMITTEE

The Investment Committee consisted of 5 directors, namely Mr. Li Yu Gui (Committee Chairman), Mr. Zhong Wen Sheng, Mr. Liu Bai Yue, Mr. Yang Bin and Mr. Chang Kin Man. The role of Investment Committee is to oversee the Company's strategic and investment policy on a regular basis and to advise the Board on the investment of the Company including asset allocation and new investment proposal.

PUBLICATION OF THE INTERIM RESULTS AND REPORT

This interim results announcement is published on the websites of the Company (www.chinawaterind.com) and Hong Kong Exchanges and Clearing Limited (<http://www.hkex.com.hk>). The interim report of the Company for 2009 containing all information required by the Listing Rules will be dispatch to Shareholders and made available on the above websites in due course.

APPRECIATION

Finally, I would like to take this opportunity to express my gratitude to my fellow directors, management and employees for their contributions and dedication to the development of the Group and deep thanks to our shareholders, customers, suppliers and business partners for their continued supports.

By order of the Board
China Water Industry Group Limited
Li Yu Gui
Chairman

Hong Kong, 28 September 2009

As at the date of this announcement, the Board comprises Ms. Chu Yin Yin, Georgiana, Mr. Zhong Wen Sheng, Mr. Liu Bai Yue, Mr. Li Yu Gui, Mr. Yang Bin and Mr. Li Wen Jun, all being executive Directors and Mr. Chang Kin Man, Mr. Wu Tak Lung and Mr. Gu Wen Xuan, all being independent non-executive Directors.

* *For identification purposes only*