

## **China Water Supply Market Report, 2008**

December 2008

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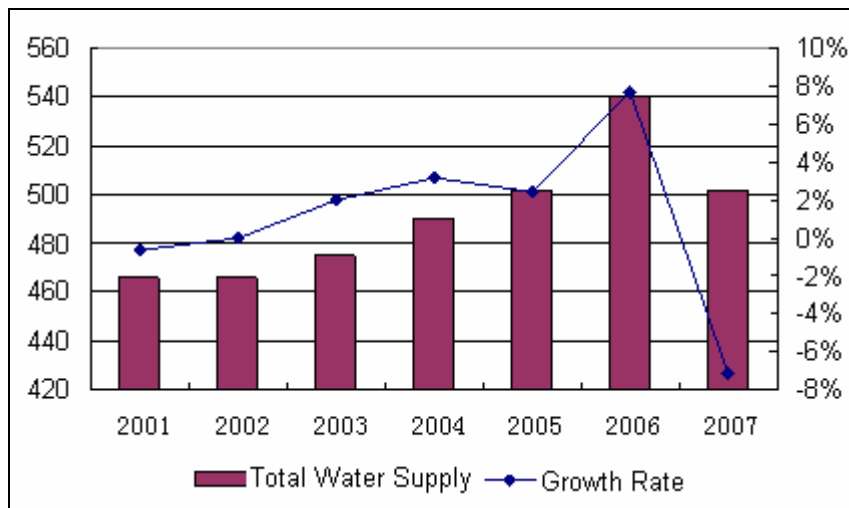
**Supply and Demand of Water Supply Market**

**Supply**

**Total Supply**

During 2001-2006 periods, the total water supply in China witnessed an overall 15.98% increase from 46.9 billion m<sup>3</sup> in 2001 to 54.048 billion m<sup>3</sup> in 2006, with growth rate up to 7.65% in 2006. The figure, however, dropped dramatically by 7.14% to 50.19 billion m<sup>3</sup>.

*Whole-Year Urban Water Supply in China, 2001-2007 (100mln m<sup>3</sup>)*



Source: ResearchInChina

During Jan-Aug. 2008, sales revenue of China's water supply industry grew 10.74% to CNY50.23 billion, number of industry players rose 63 to 1,760. However, the sales revenue concentration ratio of top 4 enterprises edged down 0.5 percentage points to 11.26% over the same period of previous year, while profit concentration ratio of top 4 enterprises rocketed 163.02 percentage points to 246.47%.

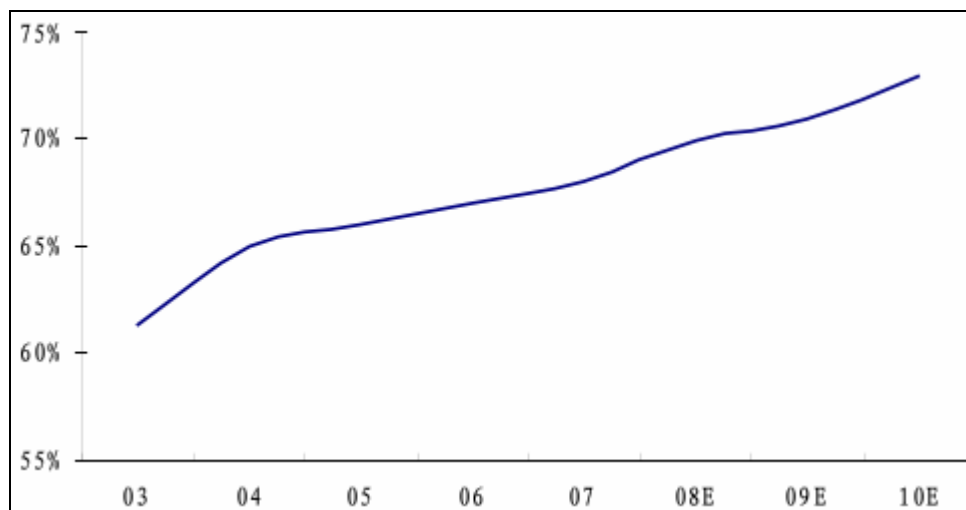
**Nanhai Development Company Limited**

**Development Strategy**

**Water supply volume grows on geographical advantage and water supply market expansion**

Nanhai Development Company Limited is located in Nanhai district, Foshan city, Guangdong province. The Nanhai district's economy has experienced a rapid growth and is expected to continue the strong momentum in the future, and demand for water supply there will also maintain a compound annual growth rate of 4%. The water supply increment (estimated 40, 000 m<sup>3</sup> per day) in 2008 was mainly from water supply to Xiaotang (a town in Nanhai district) and indirect water supply to part of Lishui (a town in Nanhai district). The increment in 2009 is mostly from indirect water supply to entire Lishui town.

**Share of Nanhai Development Company Limited in Nanhai District's Water Supply Market**

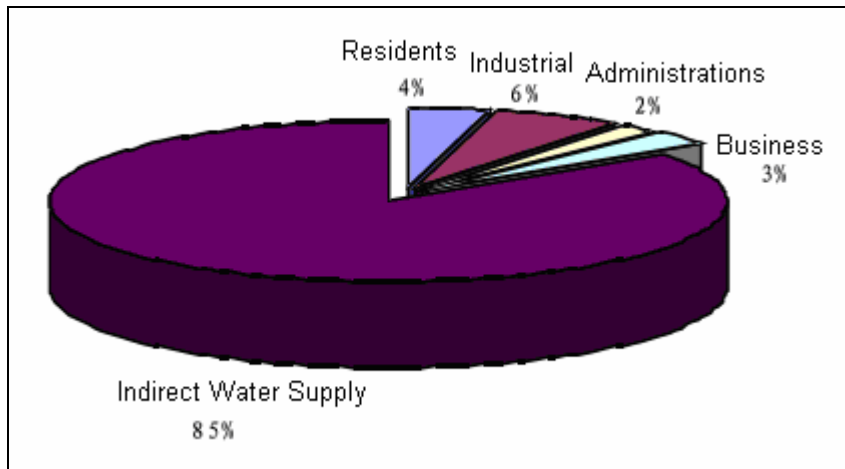


Source: Century Securities Co., Ltd

**Unique water supply model and water supply by pipeline network connections**

The company's 85% of water supply is achieved by indirect water supply system, i.e. the company supply water to waterworks in some towns and charge water rate from these waterworks which then charge water rate from end users. This model can ensure the company's cash inflows. Besides, the company has its Guicheng Waterworks' water supply pipeline network connected with that of Nanhai's No. 2 Waterworks, which can help it better control water supply and balance pipeline network's hydraulic pressure.

**Water Supply Structure of Nanhai Development Company Limited, 2007**

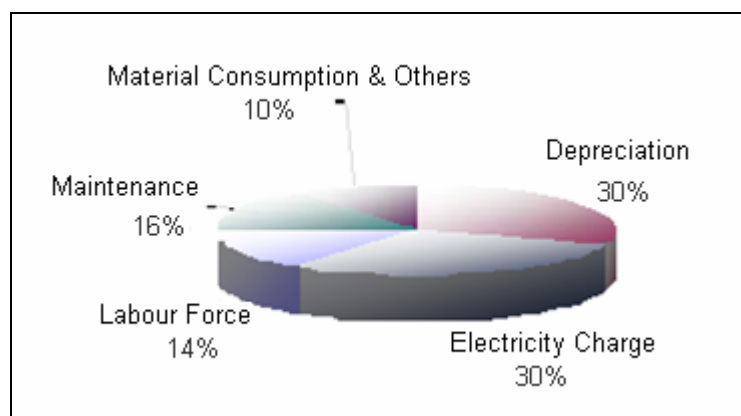


Source: Century Securities Co., Ltd

**Limited impacts from cost increase**

Tap water production cost is mainly from electricity charge, depreciation, labour force, amortization and pipeline maintenance. The company controls the cost principally by improving management and supplying water by pipeline network connections so as to ease the pressure brought by cost increase. Overall, the cost increase has only a limited impact on company's performance.

**Cost Structure of Nanhai Development Company Limited, 2007**



Source: Century Securities Co., Ltd

**Operating Performance**

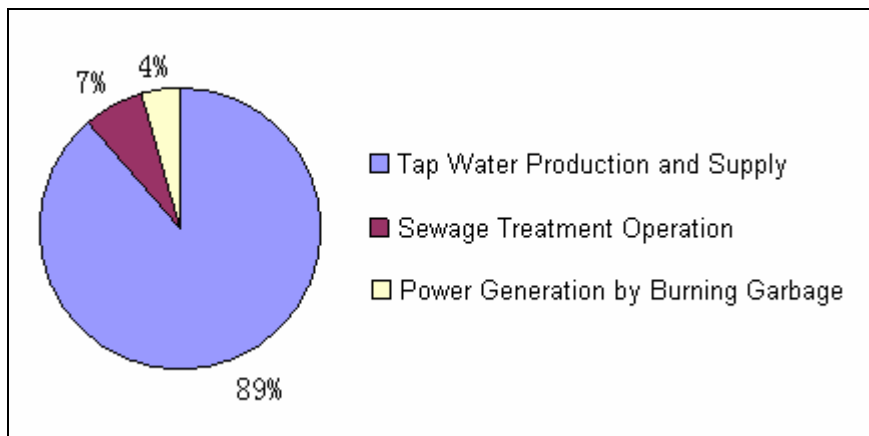
**Main Business Income and Net Profit of Nanhai Development Company Limited, 2004-2008Q3**

Year	2004	2005	2006	2007	2008Q3
Main Business Income (Yuan)	272391240	318873725	367558950	411924732	313399299.9
Net Profit (Yuan)	71516877	77520803	86268679	92855476	81786280.6

Source: Nanhai Development Company Limited

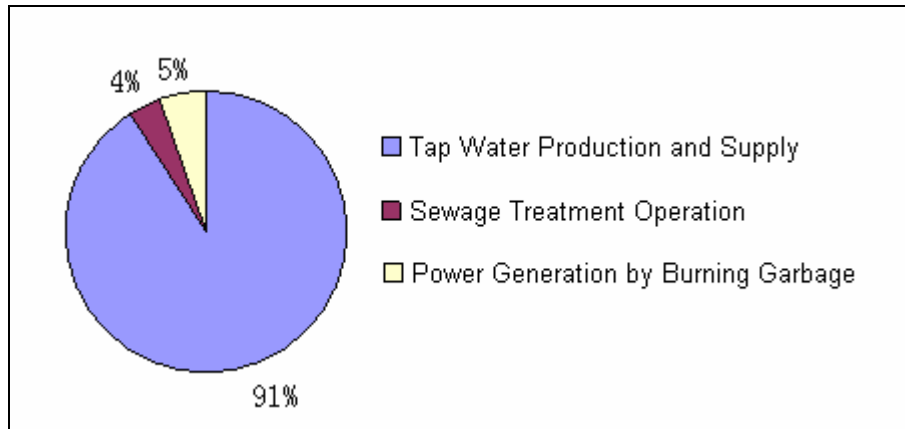
The sales revenue of the company rose 11.7% to CNY410 million in 2007, 89% of which was generated by tap water production and supply, 7% by sewage treatment operation and 4% by power generation through burning garbage. From the first to third quarter of 2008, sales revenue and net profit rose respectively 1.36% and 10.7% to CNY313 million and CNY81.786 million, but operating profit fell 7.07% to CNY110.265 million.

**Sales Revenue Structure of Nanhai Development Company Limited, 2007**



Source: Nanhai Development Company Limited

**Sales Profit Structure of Nanhai Development Company Limited, 2007**



Source: Nanhai Development Company Limited

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