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中國水業集團有限公司*
CHINA WATER INDUSTRY GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1129)

**ANNOUNCEMENT OF FINAL RESULTS
 FOR THE YEAR ENDED 31 DECEMBER 2015**

FINANCIAL HIGHLIGHTS

| | Year ended 31 December | | |
|--|-------------------------------|-----------------|-----------|
| | 2015 | 2014 | Change |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | % |
| Financial Results | | | |
| Revenue | 528,586 | 507,963 | 4.06% |
| Gross profit | 185,020 | 199,390 | (7.21%) |
| (Loss) profit for the year | (70,598) | 229,635 | (130.74%) |
| (Loss) profit attributable to owners of the Company | (97,497) | 203,622 | (147.88%) |
| (Loss) earnings per share (HK cents) | | | |
| – Basic | (6.56) | 16.50 | (139.76%) |
| – Diluted | (6.56) | 14.11 | (146.49%) |
| | 2015 | 2014 | Change |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | % |
| Financial Position | | | |
| Total assets | 2,621,663 | 1,933,204 | 35.61% |
| Total liabilities | 969,104 | 663,210 | 46.12% |
| Cash and cash equivalents | 476,873 | 324,066 | 47.15% |
| Gearing ratio | 36.97% | 34.31% | 7.75% |
| Total net asset value | 1,652,559 | 1,269,994 | 30.12% |
| Total equity | 1,652,559 | 1,269,994 | 30.12% |
| Equity attributable to the Company's shareholders per share (HK\$) | 0.82 | 0.71 | 15.49% |

The Board resolved not to declare any final dividend for the year ended 31 December 2015 (2014: nil).

The Board of Directors (the “**Board**”) of China Water Industry Group Limited (the “**Company**”) hereby announces the audited consolidated results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 2015 together with comparative figures for the year ended 31 December 2014 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2015

| | <i>Note</i> | 2015 HK\$'000 | 2014 HK\$'000 |
|--|-------------|--------------------------------|------------------|
| Revenue | 3 | 528,586 | 507,963 |
| Cost of sales | | (343,566) | (308,573) |
| Gross profit | | 185,020 | 199,390 |
| Other operating income | | 52,273 | 30,990 |
| Gain on disposal of subsidiaries | | – | 116,783 |
| Reversal of impairment loss recognised on an associate | | 33,540 | – |
| Reversal of impairment loss recognised on trade and other receivables | | 359 | 337 |
| Selling and distribution expenses | | (30,931) | (29,286) |
| Administrative expenses | | (140,306) | (146,300) |
| Finance costs | 5 | (8,842) | (21,670) |
| Change in fair value of investment property | | 410 | 605 |
| Change in fair value of derivative financial instruments | | 46 | 31,482 |
| Net (loss) gain on financial assets at fair value through profit or loss | | (90,631) | 94,747 |
| Net gain on disposal of available-for-sale investments | | 12,716 | 40,647 |
| Impairment loss recognised on:– | | | |
| – trade and other receivables | | (161) | (3,059) |
| – available-for-sale investments | | (58,537) | (16,353) |
| – goodwill | | (4,066) | (6,964) |
| – property, plant and equipment | | (1,622) | – |
| – concession intangible assets | | (6,384) | – |
| – other intangible assets | | (874) | – |
| Share of profits of associates | | 7,332 | 61 |
| (Loss) profit before taxation | | (50,658) | 291,410 |
| Income tax | 6 | (19,940) | (61,775) |
| (Loss) profit for the year | 7 | (70,598) | 229,635 |
| Attributable to: | | | |
| Owners of the Company | | (97,497) | 203,622 |
| Non-controlling interests | | 26,899 | 26,013 |
| | | (70,598) | 229,635 |
| (Loss) earnings per share (HK cents): | 9 | | |
| Basic | | (6.56) | 16.50 |
| Diluted | | (6.56) | 14.11 |

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2015

| | 2015 <i>HK\$'000</i> | 2014 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| (Loss) profit for the year | <u>(70,598)</u> | <u>229,635</u> |
| Other comprehensive income for the year | | |
| Items that may be reclassified subsequently to profit or loss: | | |
| Exchange difference on translation of financial statements of overseas subsidiaries:– | | |
| Exchange difference arising during the year | (86,509) | (6,010) |
| Reclassification adjustments relating to subsidiaries disposed of during the year | <u>–</u> | <u>(11,471)</u> |
| | <u>(86,509)</u> | <u>(17,481)</u> |
| Available-for-sale investments: | | |
| Net (loss) gain arising on revaluation of available-for-sale investments during the year | (22,777) | 15,147 |
| Reclassification upon impairment | 58,537 | 16,353 |
| Reclassification adjustments relating to available-for-sale investments disposed of during the year | <u>(12,716)</u> | <u>(40,647)</u> |
| | <u>23,044</u> | <u>(9,147)</u> |
| Share of other comprehensive income of associates | <u>(5,775)</u> | <u>(558)</u> |
| Other comprehensive income for the year, net of income tax | <u>(69,240)</u> | <u>(27,186)</u> |
| Total comprehensive income for the year | <u>(139,838)</u> | <u>202,449</u> |
| Attributable to: | | |
| Owners of the Company | (125,770) | 179,503 |
| Non-controlling interests | <u>(14,068)</u> | <u>22,946</u> |
| | <u>(139,838)</u> | <u>202,449</u> |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2015

| | <i>Note</i> | 2015 HK\$'000 | 2014 HK\$'000 |
|---|-------------|--------------------------------|------------------|
| Non-current assets | | | |
| Property, plant and equipment | | 277,405 | 159,310 |
| Deposits paid for acquisition of property, plant and equipment | | 60,609 | 5,282 |
| Deposits paid for acquisition of subsidiaries | | 29,843 | – |
| Prepaid lease payments | | 22,189 | 25,110 |
| Concession intangible assets | | 549,083 | 546,766 |
| Investment property | | – | 21,457 |
| Other non-current assets | | 20,711 | – |
| Other intangible assets | | 173,093 | 176,111 |
| Available-for-sale investments | | 181,424 | 26,016 |
| Interest in associates | | 74,660 | 39,563 |
| Deferred tax assets | | 7,096 | 1,327 |
| | | <u>1,396,113</u> | <u>1,000,942</u> |
| Current assets | | | |
| Inventories | | 204,383 | 184,036 |
| Financial assets at fair value through profit or loss | | 220,061 | 238,527 |
| Trade and other receivables | <i>10</i> | 305,606 | 171,682 |
| Prepaid lease payments | | 1,053 | 1,053 |
| Amounts due from customers for contract works | | 13,463 | 12,898 |
| Tax recoverable | | 4,111 | – |
| Cash held by financial institutions | | 923 | 5,268 |
| Bank balances and cash | | 475,950 | 318,798 |
| | | <u>1,225,550</u> | <u>932,262</u> |
| Current liabilities | | | |
| Trade and other payables | <i>11</i> | 306,042 | 157,947 |
| Amounts due to customers for contract works | | 112,180 | 58,421 |
| Bank borrowings | | 29,007 | 49,258 |
| Other loans | | 203,982 | 13,619 |
| Amounts due to non-controlling shareholders of subsidiaries | | 27,903 | 59,532 |
| Loans from associates | | 3,130 | 4,657 |
| Convertible bonds | | – | 103,519 |
| Tax payables | | 31,550 | 38,495 |
| | | <u>713,794</u> | <u>485,448</u> |
| Net current assets | | <u>511,756</u> | <u>446,814</u> |
| Total assets less current liabilities | | <u>1,907,869</u> | <u>1,447,756</u> |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*
AT 31 DECEMBER 2015

| | 2015 <i>HK\$'000</i> | 2014 <i>HK\$'000</i> |
|--|--------------------------------|-------------------------|
| Capital and reserves | | |
| Share capital | 798,270 | 666,166 |
| Share premium and reserves | 512,557 | 273,411 |
| | <hr/> | <hr/> |
| Equity attributable to owners of the Company | 1,310,827 | 939,577 |
| Non-controlling interests | 341,732 | 330,417 |
| | <hr/> | <hr/> |
| TOTAL EQUITY | 1,652,559 | 1,269,994 |
| | <hr/> | <hr/> |
| Non-current liabilities | | |
| Bank borrowings | 103,852 | 33,598 |
| Other loans | 79,627 | 59,270 |
| Government grants | 17,256 | 19,237 |
| Deferred tax liabilities | 54,575 | 65,657 |
| | <hr/> | <hr/> |
| | 255,310 | 177,762 |
| | <hr/> | <hr/> |
| | 1,907,869 | 1,447,756 |
| | <hr/> <hr/> | <hr/> <hr/> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

1. GENERAL

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**”). Its principal place of business is located at Room 1207, 12th Floor, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Sheung Wan, Hong Kong. The registered office of the Company is located at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The consolidated financial statements are presented in Hong Kong dollars (“**HK\$**”). Other than those subsidiaries established in the People’s Republic of China (the “**PRC**”) whose functional currency is Renminbi (“**RMB**”), the functional currency of the Company and its subsidiaries (collectively referred to as the “**Group**”) is HK\$.

The Group is principally engaged in (i) provision of water supply, sewage treatment and construction services; and (ii) exploitation and sale of renewable energy in the PRC.

2. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

(a) Application of new and revised Hong Kong Financial Reporting Standards (“**HKFRSs**”)

In the current year, the Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accounts (“**HKICPA**”).

| | |
|---|--|
| Amendments to HKAS 19 HKFRSs (Amendments) HKFRSs (Amendments) | Employee Benefits: Defined Benefit Plans: Employee Contributions Annual Improvements to HKFRSs 2010-2012 Cycle Annual Improvements to HKFRSs 2011-2013 Cycle |
|---|--|

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the new or amended HKFRSs are discussed below:

Amendments to HKAS 19 – Employee Benefits: Defined Benefit Plans: Employee Contributions

The amendments introduce a relief to reduce the complexity of accounting for certain contributions from employees or third parties under defined benefit plans. When the contributions are eligible for the practical expedient provided by the amendments, a company is allowed to recognise the contributions as a reduction of the service cost in the period in which the related service is rendered, instead of including them in calculating the defined benefit obligation.

The amendments do not have an impact on these financial statements as the Group has no defined benefit plans.

Annual Improvements to HKFRSs 2010-2012 Cycle and 2011-2013 Cycle

These two cycles of annual improvements contain amendments to nine standards with consequential amendments to other standards. Among them, HKAS 24, Related Party Disclosures has been amended to expand the definition of a “related party” to include a management entity that provides key management personnel services to the reporting entity, and to require the disclosure of the amounts incurred for obtaining the key management personnel services provided by the management entity. These amendments do not have an impact on the Group’s related party disclosures as the Group does not obtain key management personnel services from management entities.

The adoption of the improvements made in the 2010-2012 Cycle has required additional disclosures in the segment note. Other than that, the remaining amendments are not material to the Group.

(b) New Hong Kong Companies Ordinance (Cap. 622)

In addition, the requirements of Part 9 “Accounts and Audit” of the new Hong Kong Companies Ordinance (Cap. 622) come into operation during the financial year, and as a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

3. REVENUE

An analysis of the Group's revenue for the year is as follows:

| | 2015 <i>HK\$'000</i> | 2014 <i>HK\$'000</i> |
|--|--------------------------------|-------------------------|
| Water supply services | 119,061 | 159,217 |
| Sewage treatment services | 48,381 | 45,763 |
| Water supply related installation and construction income | 235,875 | 222,490 |
| Water supply and sewage treatment infrastructure construction income | 58,690 | 60,803 |
| Sale of electricity | 29,984 | 19,690 |
| Sale of compressed natural gas | 27,529 | – |
| Service income from collection of landfill gas | 9,066 | – |
| | 528,586 | 507,963 |

4. SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by a mixture of both business lines (products and services) and geography. In a manner consistent with the way in which information is reported internally to the board of directors of the Company being the chief operating decision maker for the purposes of resource allocation and performance assessment, the Group has presented the following two reportable segments. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

The Group has identified the following reportable segments:

- (i) “Provision of water supply, sewage treatment and construction services” segment, which derives revenues primarily from the provision of water supply and sewage treatment operations and related construction services; and
- (ii) “Exploitation and sale of renewable energy” segment, which derives revenues primarily from sale of electricity and compressed natural gas from biogas power plants.

Information regarding the Group's reportable segments as provided to the board of directors of the Company for the purposes of resource allocation and assessment of segment performance is set out below.

Segment revenue and results

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

4. SEGMENT REPORTING (Continued)

Segment revenue and results (Continued)

For the year ended 31 December 2015

| | Provision of water supply, sewage treatment and construction services <i>HK\$'000</i> | Exploitation and sale of renewable energy <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|---|---|---|--------------------------|
| Reportable segment revenue | 462,007 | 66,579 | 528,586 |
| Reportable segment profit | 115,279 | 3,121 | 118,400 |
| Unallocated corporate expenses | | | (26,598) |
| Interest income | | | 36 |
| Imputed interest on convertible bonds | | | (1,027) |
| Interest on fixed coupon bonds | | | (5,063) |
| Change in fair value of derivative financial instruments | | | 46 |
| Net loss on financial assets at fair value through profit or loss | | | (90,631) |
| Net gain on disposal of available-for-sale investments | | | 12,716 |
| Impairment loss recognised on available-for-sale investments | | | (58,537) |
| Loss before taxation | | | (50,658) |

For the year ended 31 December 2014

| | Provision of water supply, sewage treatment and construction services <i>HK\$'000</i> | Exploitation and sale of renewable energy <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|---|---|---|--------------------------|
| Reportable segment revenue | 488,273 | 19,690 | 507,963 |
| Reportable segment profit (loss) | 173,179 | (5,756) | 167,423 |
| Unallocated corporate expenses | | | (9,259) |
| Interest income | | | 460 |
| Imputed interest on convertible bonds | | | (17,737) |
| Change in fair value of derivative financial instruments | | | 31,482 |
| Net gain on financial assets at fair value through profit or loss | | | 94,747 |
| Net gain on disposal of available-for-sale investments | | | 40,647 |
| Impairment loss recognised on available-for-sale investments | | | (16,353) |
| Profit before taxation | | | 291,410 |

4. SEGMENT REPORTING (Continued)

Other segment information

For the year ended 31 December 2015

| | Provision of water supply, sewage treatment and construction services HK\$'000 | Exploitation and sale of renewable energy HK\$'000 | Corporate HK\$'000 | Total HK\$'000 |
|---|--|---|-----------------------|-------------------|
| Interest income | 7,737 | 113 | 36 | 7,886 |
| Interest expenses | (1,473) | (1,279) | (6,090) | (8,842) |
| Share of profits of associates | 7,332 | – | – | 7,332 |
| Depreciation of property, plant and equipment | (4,199) | (8,629) | (1,863) | (14,691) |
| Amortisation of: | | | | |
| – Prepaid lease payments | (1,443) | – | – | (1,443) |
| – Concession intangible assets | (26,663) | – | – | (26,663) |
| – Other intangible assets | – | (10,498) | – | (10,498) |
| Gain on disposal of property, plant and equipment and prepaid lease payments | 225 | – | – | 225 |
| Net gain on disposal of available-for-sale investments | – | – | 12,716 | 12,716 |
| Impairment loss recognised on: | | | | |
| – Trade and other receivables | (161) | – | – | (161) |
| – Available-for-sale investments | – | – | (58,537) | (58,537) |
| – Goodwill | (3,328) | (738) | – | (4,066) |
| – Concession intangible assets | (6,384) | – | – | (6,384) |
| – Other intangible assets | – | (874) | – | (874) |
| – Property, plant and equipment | – | (1,622) | – | (1,622) |
| Reversal of impairment loss on associates | 33,540 | – | – | 33,540 |
| Reversal of impairment loss recognised on trade and other receivables | 359 | – | – | 359 |
| Additions to non-current assets | 136,472 | 178,036 | 1,381 | 315,889 |

4. SEGMENT REPORTING (Continued)

Other segment information(Continued)

For the year ended 31 December 2014

| | Provision of water supply, sewage treatment and construction services HK\$'000 | Exploitation and sale of renewable energy HK\$'000 | Corporate HK\$'000 | Total HK\$'000 |
|---|---|--|-----------------------|-------------------|
| Interest income | 18,773 | – | 460 | 19,233 |
| Interest expenses | (3,462) | (457) | (17,751) | (21,670) |
| Share of profits of associates | 61 | – | – | 61 |
| Gain on disposal of subsidiaries | 116,783 | – | – | 116,783 |
| Depreciation of property, plant and equipment | (6,590) | (4,598) | (2,091) | (13,279) |
| Amortisation of: | | | | |
| – Prepaid lease payments | (1,297) | – | – | (1,297) |
| – Concession intangible assets | (32,412) | – | – | (32,412) |
| – Other intangible assets | – | (3,899) | – | (3,899) |
| Loss on disposal of property, plant and equipment and prepaid lease payments | (82) | – | – | (82) |
| Concession intangible assets written off | (608) | – | – | (608) |
| Impairment loss recognised on: | | | | |
| – Trade and other receivables | (3,059) | – | – | (3,059) |
| – Goodwill | (6,964) | – | – | (6,964) |
| – Available-for-sale investments | – | – | (16,353) | (16,353) |
| Reversal of impairment loss recognised on trade and other receivables | 337 | – | – | 337 |
| Additions to non-current assets | 111,073 | 197,381 | 2,048 | 310,502 |

Segment revenue reported above represents revenue generated from external customers. There were no inter-segments sales in the current year (2014: nil).

The measure used for reporting segment profit is “adjusted profit before tax”. To arrive at adjusted profit before tax the Group’s earnings are further adjusted for items not specifically attributed to individual segments, such as imputed interest on convertible bonds, change in fair value of derivative financial instruments, change in fair value of financial assets at fair value through profit or loss, net gain on disposal of investments, impairment loss recognised on available-for-sale investments, directors’ and auditors’ remuneration and other head office or corporate administration costs.

No geographical information is presented as the Group’s business is principally carried out in the PRC (country of domicile) and the Group’s revenue from external customers and non-current assets are in the PRC. No geographical information for other country is of a significant size to be reported separately.

For the years ended 31 December 2015 and 2014, the Group does not have any single significant customer with the transaction value of 10% or more of the revenue.

5. FINANCE COSTS

| | 2015 <i>HK\$'000</i> | 2014 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Interest on: | | |
| – convertible bonds | 1,027 | 43,399 |
| – bank borrowings | 6,921 | 6,963 |
| – other loans | 15,619 | 2,274 |
| – loan from an associate | – | 387 |
| | <hr/> | <hr/> |
| Total borrowing cost | 23,567 | 53,023 |
| Less: interest capitalised included in construction in progress | (14,725) | (31,353) |
| | <hr/> | <hr/> |
| | 8,842 | 21,670 |
| | <hr/> <hr/> | <hr/> <hr/> |

Included in construction-in-progress under concession intangible assets, property, plant and equipment and properties under development for sale is interest capitalised during the year of HK\$14,725,000 (2014: HK\$31,353,000) at the capitalization rate of 6.98% (2014: 15.48%) per annum.

6. INCOME TAX EXPENSE

| | 2015 <i>HK\$'000</i> | 2014 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Current tax – Hong Kong Profits Tax | | |
| – Provision for the year | – | 4,300 |
| – Over provision in respect of prior years | (409) | – |
| Current tax – PRC Enterprise Income Tax (“EIT”) | | |
| – Provision for the year | 36,735 | 26,825 |
| – (Over) under provision in respect of prior years | (2,081) | 1,908 |
| – PRC EIT on disposal of subsidiaries | – | 13,795 |
| Deferred tax | (14,305) | 14,947 |
| | <hr/> | <hr/> |
| | 19,940 | 61,775 |
| | <hr/> <hr/> | <hr/> <hr/> |

Hong Kong Profits Tax has been provided at the rate of 16.5% on the estimated assessable profit for 2015 (2014: 16.5%).

Under the Law of the PRC on EIT (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards. Accordingly, provision for PRC EIT for the PRC subsidiaries is calculated at 25% on the estimated assessable profits for both years, except disclosed as follows.

Foshan City Gaoming Huaxin Sewage Treatment Company Ltd* (佛山市高明區華信污水處理有限公司) (“**Gaoming Huaxin**”), Nanjing Feng Shang New Technology Limited Liability Company* (南京豐尚新能源科技有限公司) (“**Nanjing Feng Shang**”) and Hunan Huiming Environment Technology Limited* (湖南惠明環境科技有限公司) (“**Huiming Technology**”) are engaged in sewage treatment, provision of electricity supply and sale of renewable energy, respectively. They are entitled to tax concessions whereby the profit for the first three financial years beginning with the first profit-making year is exempted from EIT and the profit for each of the subsequent three years is taxed at 50% of the prevailing tax rate. The first profit-making year of Gaoming Huaxin, Nanjing Feng Shang and Huiming Technology were 2011, 2012 and 2012, respectively. Accordingly:

- Gaoming Huaxin is exempted from PRC income tax from 1 January 2011 to 31 December 2013 and is entitled to a 50% exemption of income tax from 1 January 2014 to 31 December 2016.
- Nanjing Feng Shang and Huiming Technology are exempted from PRC income tax from 1 January 2012 to 31 December 2014 and are entitled to a 50% exemption of income tax from 1 January 2015 to 31 December 2017.

6. INCOME TAX EXPENSE (Continued)

According to the Circular on the State Administration of Taxation on Strengthening the Management of EIT Collection of Proceeds from Equity Transfers by Non-Resident Enterprises (Guoshuihan [2009] No. 698) (“Circular 698”), Announcement [2011] No. 24 and the State Administration of Taxation Notice [2015] No. 7, a non-PRC Tax Resident Enterprise is subject to the PRC EIT on the taxable gain arising from a sale or transfer of any intermediate offshore company which directly or indirectly holds an interest, including any assets, subsidiaries, or other forms of business operations, in the PRC at a rate of 10%, or otherwise stipulated in an applicable tax treaty or arrangement. Circular 698 applies to all transactions conducted on or after January 1, 2008.

As such, included in the income tax expense for the year ended 31 December 2014 was an amount of HK\$13,795,000 on the sale of Super Sino. The amount was fully settled in the year ended 31 December 2015.

The income tax expense for the year can be reconciled to the (loss) profit before tax per the consolidated statement of profit or loss as follows:

| | 2015 <i>HK\$'000</i> | 2014 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| (Loss) profit before taxation | <u>(50,658)</u> | <u>291,410</u> |
| Tax at the domestic income tax rate of 25% (2014: 25%) | (12,665) | 72,853 |
| Tax effect of share of results of associate | (1,833) | (15) |
| Tax effect of expenses not deductible for tax purposes | 15,207 | 17,174 |
| Tax effect of income not taxable for tax purposes | (4,131) | (8,396) |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | 15,532 | (18,832) |
| Effect of tax exemption granted to PRC subsidiaries | – | (1,511) |
| Tax effect of tax losses and deductible temporary differences not recognised | 8,397 | 4,567 |
| Utilisation of tax losses previously not recognised | – | (1,645) |
| Deferred tax liabilities arising on undistributed profit of PRC subsidiaries | 1,923 | 1,146 |
| (Over) under provision in respect of prior years | (2,490) | 1,908 |
| Tax on disposal of Super Sino | – | (5,474) |
| | <u>19,940</u> | <u>61,775</u> |

7. (LOSS) PROFIT FOR THE YEAR

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

| | 2015 <i>HK\$'000</i> | 2014 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Staff costs excluding directors' and chief executive's emoluments | | |
| – Salaries, wages and other benefits | 94,464 | 94,985 |
| – Retirement benefits scheme contributions | <u>13,628</u> | <u>14,014</u> |
| Total staff costs | <u>108,092</u> | <u>108,999</u> |
| Amortisation of:– | | |
| – Prepaid lease payments | 1,443 | 1,297 |
| – Concession intangible assets (included in cost of sales) | 26,663 | 32,412 |
| – Other intangible assets (included in cost of sales) | 10,498 | 3,899 |
| Concession intangible assets written off | – | 608 |
| Depreciation of property, plant and equipment | 14,691 | 13,279 |
| (Gain) loss on disposal of property, plant and equipment and prepaid lease payment | (225) | 82 |
| Auditors' remuneration – audit services | 1,450 | 900 |
| Minimum lease payments under operating leases | 6,710 | 7,257 |
| Cost of inventories sold | <u>115,567</u> | <u>88,044</u> |

8. DIVIDENDS

No dividend was paid or proposed during the year ended 31 December 2015, nor has any dividend been proposed since the end of the reporting period (2014: nil).

9. (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:

| | 2015 <i>HK\$'000</i> | 2014 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| (Loss) profit attributable to the owners of the Company, used in the basic (loss) earnings per share | (97,497) | 203,622 |
| Change in fair value of derivative component of convertible bonds | – | (31,482) |
| Imputed interest on convertible bonds, net of interest capitalised | – | 17,737 |
| | <u>(97,497)</u> | <u>189,877</u> |
| | <i>'000</i> | <i>'000</i> |
| Weighted average number of ordinary shares – basic | 1,486,921 | 1,233,800 |
| Effect of dilutive potential ordinary shares: – Convertible bonds | – | 111,669 |
| | <u>1,486,921</u> | <u>1,345,469</u> |
| | <u>(6.56)</u> | <u>16.50</u> |
| (Loss) earnings per share (HK cents): Basic | | |
| | <u>(6.56)</u> | <u>14.11</u> |
| Diluted | | |

For the year ended 31 December 2015, the computation of diluted loss per share does not assume the conversion of the Company's outstanding convertible bonds in issue since their exercise would result in decrease in loss per share for the year then ended.

10. TRADE AND OTHER RECEIVABLES

| | 2015 <i>HK\$'000</i> | 2014 <i>HK\$'000</i> |
|------------------------------------|-------------------------|-------------------------|
| Trade receivables | 38,010 | 35,912 |
| Less: Allowance for doubtful debts | (2,331) | (5,659) |
| | <u>35,679</u> | <u>30,253</u> |
| Consideration receivable | – | 88,304 |
| Other receivables (a) | 83,197 | 15,700 |
| Less: Allowance for doubtful debts | (10,466) | (4,265) |
| | <u>72,731</u> | <u>11,435</u> |
| Loans receivables (b) | 112,142 | 69,847 |
| Less: Allowance for doubtful debts | (54,844) | (54,844) |
| | <u>57,298</u> | <u>15,003</u> |
| Deposits and prepayments (c) | 139,898 | 26,687 |
| | <u>305,606</u> | <u>171,682</u> |

10. TRADE AND OTHER RECEIVABLES (Continued)

(a) Other receivables represented advances to staff and unrelated parties, which were unsecured, interest-free and repayable on demand. Amount at 31 December 2015 included (i) a receivable of HK\$42.4 million (2014: nil) from the disposal of investments in an unlisted US dollar based investment fund (classified as financial assets at fair value through profit or loss) and (ii) a receivable of HK\$14.0 million (2014: nil) from the disposal of investments in a property development company in China (classified as available-for-sale investments).

(b) Loans receivables

Apart from the loans to Top Vision (HK\$43.6 million) and other borrowers (HK\$11.2 million) as explained below, also included in loans receivables as at 31 December 2015 were loans to two unrelated parties of HK\$57,298,000 (2014: HK\$15,003,000), which bear fixed interest rate at approximately 36% per annum. Loan of HK\$9,550,000 was unsecured and the remaining balance was secured by the equity interest in the borrower (a company incorporated in China). These parties have no recent history of default.

(c) Deposits and prepayments were mainly prepayments and tender deposits paid to independent third parties for construction projects. Amount at 31 December 2015 included a deposit of HK\$47.75 million (2014: HK\$nil) for purchase of materials for trading purposes. Subsequent to 31 December 2015, the purchase was cancelled and the deposit was fully refunded.

The Group allows an average credit period of 5 days to 180 days to its customers.

The ageing analysis of the trade receivables, net, as at the end of the reporting period, based on invoice date which approximates the respective revenue recognition date, is as follows:

| | 2015 HK\$'000 | 2014 HK\$'000 |
|-----------------|------------------|------------------|
| Within 90 days | 33,164 | 20,985 |
| 91 to 180 days | 401 | 2,262 |
| 181 to 365 days | – | 5,671 |
| Over 1 year | 2,114 | 1,335 |
| | <u>35,679</u> | <u>30,253</u> |

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired is as follows:

| | 2015 HK\$'000 | 2014 HK\$'000 |
|-------------------------------|------------------|------------------|
| Neither past due nor impaired | 33,565 | 23,247 |
| Past due but not impaired | | |
| Within 90 days | – | 4,450 |
| 91 to 180 days | – | 1,221 |
| 181 to 365 days | 1,508 | 745 |
| Over 1 year | 606 | 590 |
| | <u>35,679</u> | <u>30,253</u> |

10. TRADE AND OTHER RECEIVABLES (Continued)

Trade receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default. The Group does not hold any collateral over these balances.

Trade receivables that were past due but not impaired related to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balance are still considered fully recoverable. The Group does not hold any collateral over these balances.

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly.

The movements in the allowance of doubtful debts on trade receivables are as follows:

| | 2015 HK\$'000 | 2014 <i>HK\$'000</i> |
|-----------------------------------|--------------------------------|-------------------------|
| At 1 January | 5,659 | 7,604 |
| Impairment loss recognised | 155 | 3,059 |
| Reversal of impairment loss | (359) | (337) |
| Uncollectible amounts written off | (2,949) | (2,074) |
| Disposal of subsidiaries | – | (2,527) |
| Exchange realignment | (175) | (66) |
| | <hr/> 2,331 <hr/> | <hr/> 5,659 <hr/> |
| At 31 December | 2,331 | 5,659 |

Included in the impairment loss are individually impaired trade receivables with an aggregate balance of HK\$2,331,000 (2014: HK\$5,659,000) which are long outstanding.

The movements in the allowance of doubtful debts on other receivables are as follows:

| | 2015 HK\$'000 | 2014 <i>HK\$'000</i> |
|-----------------------------------|--------------------------------|-------------------------|
| At 1 January | 4,265 | 9,090 |
| Impairment loss recognised | 6,367 | – |
| Uncollectible amounts written off | (93) | (2,308) |
| Disposal of subsidiaries | – | (2,508) |
| Exchange realignment | (73) | (9) |
| | <hr/> 10,466 <hr/> | <hr/> 4,265 <hr/> |
| At 31 December | 10,466 | 4,265 |

Impairment loss recognised included an impairment of HK\$6,361,000 on the receivable from disposal of an unlisted US dollar based investment fund in the year, included as “Net (loss) gain on financial assets at fair value through profit or loss” on the consolidated statement of profit or loss for 2015. Included in the impairment loss are individually impaired other receivables with an aggregate balance of HK\$10,466,000 (2014: HK\$4,265,000) which are long outstanding. Other receivables of HK\$72,731,000 (2014: HK\$11,435,000) that were neither past due nor impaired relate to various debtors for whom there was no recent history of default. The Group does not hold any collateral over these balances.

The movements in the allowance of doubtful debts on loans receivables are as follows:

| | 2015 HK\$'000 | 2014 <i>HK\$'000</i> |
|----------------|--------------------------------|-------------------------|
| At 31 December | 54,844 | 54,844 |

Included in the impairment loss are individually impaired loans receivables with an aggregate balance of HK\$54,844,000 (2014: HK\$54,844,000) which are long outstanding. The Group does not hold any collateral over these balances.

10. TRADE AND OTHER RECEIVABLES *(Continued)*

Loans to Top Vision

As at 31 December 2010, loans receivables included HK\$68,206,000 due from Top Vision Management Ltd (“**Top Vision**”). Prior to 1 January 2012, part of the aforesaid loan balance of HK\$15,500,000 was used to set off the consideration paid to Top Vision for the acquisition of 70% equity interest in Gaoming Huaxin. In addition, another part of the loan balance of approximately HK\$9,108,000 was assigned from Top Vision to Gaoming Huaxin upon the Group’s acquisition of Gaoming Huaxin. On 21 August 2012, the Company and its subsidiary of Swift Surplus Holdings Limited (“**Swift Surplus**”) (collectively the “**Lenders**”) entered into another supplementary agreement with Top Vision, pursuant to which the outstanding balance carried interest rate of 4% per annum plus Hong Kong Interbank Offered Rate (“**HIBOR**”), repayable on or before 31 December 2012 and the settlement was guaranteed by 5 independent third parties. As at 31 December 2015 and 2014, the remaining balance of HK\$43,598,000 has not yet been settled.

On 22 March 2013, the Lenders have entered into supplemental deeds with Top Vision together with its respective guarantors, pursuant to which, approximately HK\$18.03 million of the remaining loan receivables and underlying interests shall be repaid to the Lenders on or before 21 March 2014. Nevertheless, Swift Surplus and Top Vision and its guarantors could not reach an agreement in respect of the terms and date of the repayment of the outstanding balance of the remaining loan receivables and underlying interests.

On 14 May 2013, the Company instructed its legal counsel to file the writ of summons to the High Court of Hong Kong Special Administrative Region (the “**High Court**”) to recover the outstanding loan balance from Top Vision. On 25 June 2013, the High Court adjudged a final judgment that Top Vision shall pay the outstanding balance to Swift Surplus (the “**Final Judgment**”). Up to the date of approval these financial statements, Top Vision has not performed the repayment obligation under the judgment issued by the High Court. The Company cannot locate any asset of Top Vision in Hong Kong. Without information on the assets of Top Vision in Hong Kong, the Company cannot enforce the Final Judgment against Top Vision.

As the major assets owned by the subsidiaries of Top Vision are located in Guangdong Province, the PRC, the Company had undertaken recovery actions including but not limited to legal actions taken in PRC to collect the outstanding loan balance.

On 20 August 2014, a petition to wind up Top Vision was filed by one of its creditors. Top Vision has now been wound up by the High Court and the first meeting of creditors of Top Vision was held on 30 October 2014 for the appointment of provisional liquidator. On 14 January 2015, the solicitors act for the creditors requested the High Court to have the hearing adjourned for the appointment of liquidators (the “**Appointment**”) pending the alleged negotiation settlement between the Top Vision and all creditors including the Company and its subsidiary. The High Court hearing for the Appointment was held on 4 May 2015. Although Top Vision was in liquidation, the Company has instructed its legal counsel to undertake the arbitration in Hong Kong to chase back the remaining loan receivables and the underlying interests from the respective guarantors.

As at 31 December 2015 and 2014, the loan receivables from Top Vision of HK\$43,598,000 were fully impaired.

At 31 December 2015 and 2014, the long outstanding loans receivables from three other borrowers totalled HK\$11,246,000 were fully impaired.

11. TRADE AND OTHER PAYABLES

| | 2015 <i>HK\$'000</i> | 2014 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Trade payables | 25,299 | 17,540 |
| Other tax payables | 6,853 | 4,313 |
| Receipt in advance | 96,355 | 50,833 |
| Construction payables | 65,002 | 7,502 |
| Interest payables | 11,943 | 10,549 |
| Consideration payable | 3,033 | 13,237 |
| Accrued expenses | 19,771 | 17,578 |
| Guarantee deposits from a subcontractor | 11,937 | – |
| Sewage treatment fees received on behalf of certain government authorities | 22,264 | 21,592 |
| Forward sales deposits received | 22,505 | 2,379 |
| Other payables | 21,080 | 12,424 |
| | <u>306,042</u> | <u>157,947</u> |

The ageing analysis of the trade payables as at the end of the reporting period based on invoice date is as follows:

| | 2015 <i>HK\$'000</i> | 2014 <i>HK\$'000</i> |
|-----------------|-------------------------|-------------------------|
| Within 30 days | 10,226 | 10,397 |
| 31 to 90 days | 4,654 | 574 |
| 91 to 180 days | 1,198 | 1,001 |
| 181 to 365 days | 2,065 | 2,198 |
| Over 1 year | 7,156 | 3,370 |
| | <u>25,299</u> | <u>17,540</u> |

The credit terms of trade payables vary according to the terms agreed with different suppliers. The Group has financial risk management policies in place to ensure that all payables are settled within the time frame agreed with the respective suppliers.

12. CAPITAL COMMITMENTS

Capital commitments outstanding at 31 December 2015 not provided for in the financial statements were as follows:

| | 2015 <i>HK\$'000</i> | 2014 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Contracted but not provided for: | | |
| – Acquisition of concession intangible assets, plant and equipment | 110,548 | 92,393 |
| – Properties under development (in relation to development cost of existing projects) | 9,274 | 26,646 |
| | <u>119,822</u> | <u>119,039</u> |

13. LITIGATIONS AND ARBITRATION

a. **Guangzhou Hyde Environmental Protection Technology Co., Ltd., an indirect wholly-owned subsidiary of the Company**

Guangzhou Hyde Environmental Protection Technology Co. Ltd.* (廣州市海德環保科技有限公司) (“**Guangzhou Hyde**”) (an indirect wholly-owned subsidiary of the Company) and Yunnan Chaoyue Gas Company Limited* (云南超越燃氣有限公司) (“**Yunnan Chaoyue Gas**”) entered into the cooperation contract dated 13 October 2010, pursuant to which Guangzhou Hyde shall paid a refundable deposit of HK\$10 million (“**Deposit**”) to Yunnan Chaoyue Gas for the purpose of obtaining the operation and management right of the Yunnan Dian Lake project (“**Project**”). Pursuant to the cooperation contract, Yunnan Chaoyue Gas shall refund the Deposit to Guangzhou Hyde within nine months once it was unsuccessfully to obtain the Project. Yunnan Chaoyue Gas has failed to repay the aforesaid Deposit to Guangzhou Hyde when it fell due despite Guangzhou Hyde’s repeated requests and demands. The Deposit was classified as loan receivable and fully impaired in 2011. The dispute over cooperative contract between Guangzhou Hyde and Yunnan Chaoyue Gas was applied to Guangzhou Arbitration Commission (“**Commission**”) for arbitration on 24 February 2012. The Commission accepted the case and started a trail on 5 June 2012. After the trail, arbitration tribunal ruled an award on 12 June 2012, adjudging that Yunnan Chaoyue Gas should pay Guangzhou Hyde the principal of RMB8.56 million and overdue interests thereon; and the relevant arbitration fees.

The above award confirmed the amount to be paid by Yunnan Chaoyue Gas to Guangzhou Hyde should be settled in one-off manner within 10 days from the date on which this award is served. Late payment will result in proceedings set out in article 229 of Civil Procedure Laws of the People’s Republic of China. As Yunnan Chaoyue Gas has not performed repayment obligation under the award on time, Guangzhou Hyde applied to Kunming Intermediate People’s Court (the “**Kunming Court**”) for civil enforcement on 21 July 2012, and Kunming Court has accepted such application. On 13 May 2013, Yunnan Chaoyue Gas provided loan repayment plan (the “**Repayment Plan**”) to Guangzhou Hyde. On 1 September 2014, Kunming Court has approved the civil enforcement against Yunnan Chaoyue Gas. Up to the announcement date, Yunnan Chaoyue Gas has not performed the repayment obligation according to the Repayment Plan. The aforesaid litigation is unlikely to have any significant material adverse financial impact on the Group.

* The English names are for identification purpose only.

13. LITIGATIONS AND ARBITRATION (Continued)

b. Swift Surplus Holdings Limited, an indirect wholly-owned subsidiary of the Company

On 21 August 2012, the Company and its subsidiary of Swift Surplus Holdings Limited (“**Swift Surplus**”) (collectively as the “**Lenders**”) entered into repayment agreements (the “**Repayment Agreements**”) with the Sihui Sewage Treatment Co. Ltd.* (四會市城市污水處理有限公司) and Top Vision Management Limited (“**Top Vision**”) (collectively as the “**Borrowers**”) together with their respective guarantors, pursuant to which, the Borrowers shall repay to the Lenders the loan receivables of approximately HK\$58.43 million together with interest accrued thereon (the “**Loan Receivables**”). HK\$5 million of the Loan Receivables will be repaid on or before 30 September 2012 and the remaining Loan Receivables shall be repaid on or before 31 December 2012. On 29 August 2012, the Company only received HK\$5 million of the Loan Receivables. However, the remaining Loan Receivables of HK\$53.43 million (the “**Remaining Loan Receivables**”) plus underlying interests were not yet received on 31 December 2012. On 22 March 2013, the Lenders have entered into supplemental deeds with the Borrowers together with their respective guarantors, pursuant to which, approximately HK\$18.03 million of the Remaining Loan Receivables and underlying interests shall be repaid to the Lenders on or before 21 March 2014 (the “**Partial Payment of the Remaining Loan Receivables**”). Nevertheless, Swift Surplus and Top Vision and its guarantors could not reach an agreement in respect of the terms and date of the repayment of the outstanding balance of HK\$35.40 million of the Remaining Loan Receivables and underlying interests (the “**Outstanding Balance**”). Despite the Company several requests and demands, Top Vision failed to effect payment of the Outstanding Balance. On 14 May 2013, the Company instructed its legal counsel to file the writ of summons (the “**Writ**”) to the High Court of Hong Kong Special Administrative Region (the “**High Court**”) to recover the Outstanding Balance from Top Vision. On 25 June 2013, the High Court adjudged a final judgment that Top Vision shall pay the Outstanding Balance to Swift Surplus (the “**Final Judgement**”). Top Vision has not performed the repayment obligation under the judgment issued by the High Court. The Company cannot locate any asset of Top Vision in Hong Kong. As advised by the legal counsel, without information on the assets of Top Vision in Hong Kong, the Company cannot enforce the Final Judgment against Top Vision. As the major assets owned by the subsidiaries of Top Vision are located in Guangdong Province, the PRC, the Company had undertaken recovery actions including but not limited to legal actions taken in PRC to collect the Remaining Loan Receivables. On 20 August 2014, a petition was filed by Galaxaco Reservoir Holdings Limited (“**Galaxaco**”) to wind up Top Vision, one of the creditors of Top Vision. Top Vision has now been wound up by the High Court by a Winding-up Order under Companies Winding-up Proceedings No.157/2014 and the first meeting of creditors of Top Vision was held on 30 October 2014 for the appointment of provisional of liquidator. On 14 January 2015, the solicitors act for Galaxaco requested the High Court to have the hearing adjourned for the appointment of liquidators (the “**Appointment**”) pending the alleged negotiation settlement between Top Vision and all creditors including the Company and its subsidiary of Swift Surplus and Galaxaco. On 4 May 2015, The High Court appointed SHINEWING Specialist Advisory Services Limited as liquidators (“**Liquidators**”). The Liquidators have carried out the site visits and performed the investigation on PRC subsidiary of Top Vision. On 16 July 2015, the Zhaoqing Intermediate People’s Court adjudged that the Final Judgement was recognised and accepted to execute in Mainland China for the recovering the Outstanding Balance and the underlying interest from Top Vision (“**PRC Judgement**”). During the year, the Company has instructed its legal counsel to issue demand letters to respective guarantors, if guarantors fail to settle the Remaining Loan Receivables and the underlying interests within stipulated time, the Company will undertake the arbitration and civil action in Hong Kong against the respective guarantors. On 27 January 2016, the PRC Judgement was announced on the website of The People’s Court Announcement for 60 days (“**Announcement Period**”). If Top Vision has not appealed for the PRC Judgement within 30 days after the Announcement Period. The PRC Judgement will be automatically effective thereafter, the Company can enforce the PRC Judgement. As at 31 December 2014 and 2015, the loan receivables from Top Vision of HK\$43.60 million were fully impaired. The Board believed that no significant financial impact will be affected on the Group as sufficient impairment loss on the Loan Receivables has been provided.

* The English names are for identification purpose only.

Save as disclosed above, the Group is not aware of any other significant proceedings instituted against the Group.

EXTRACT OF INDEPENDENT AUDITOR'S REPORT

The following is an extract from the report issued by Crowe Horwath (HK) CPA Limited on the consolidated financial statements of the Group for the year ended 31 December 2015:

BASIS FOR QUALIFIED OPINION

The Group had investments in listed equity securities in Hong Kong with a carrying value of HK\$29,898,000 as at 31 December 2013. The trading of these securities was suspended during the year ended 31 December 2013. The directors of the Company considered that there was no material change in the fair value of the listed equity investments. However, there were no satisfactory audit procedures which we could adopt to ascertain the fair value of these available-for-sale investments as at 31 December 2013. Our opinion on the current year's consolidated financial statements is modified because of the possible effect of this matter on the comparability of the current year's figures and the corresponding figures in the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income.

QUALIFIED OPINION

In our opinion, except for the possible effects on the corresponding figures of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW AND BUSINESS REVIEW

Financial Review

For the year ended 31 December 2015, the Group has recorded a consolidated net loss of HK\$70.60 million (2014: consolidated net profit of HK\$229.64 million). There was a substantial decrease in profit of HK\$300.24 million. Comparing with the financial results of 2014, the Board considered that despite the Group recorded the increase of other operating income by HK\$21.28 million, increase of profit sharing from associates by HK\$7.27 million, the reversal of impairment loss on an associate of HK\$33.54 million and the decrease of income tax by HK\$41.84 million which made positive contributions to the Group's financial performance, notwithstanding, as a result of the following factors, including but not limited to (i) absence of one-off gain on disposal of subsidiaries of HK\$116.78 million which occurred in 2014; (ii) the increase of net loss on financial assets at fair value through profit or loss of HK\$185.38 million and the increase of impairment loss on available-for-sale investments of HK\$42.18 million as a result of the volatile stock market condition in Hong Kong in the second half of 2015; (iii) a substantial decrease in change in fair value of derivative financial instruments by HK\$31.44 million due to convertible bonds being fully repaid in 2014 and 2015; and (iv) a substantial decrease of HK\$27.93 million arising from gain on disposal of available-for-sale investments, the Group recorded significant deterioration in its financial performance in 2015.

Revenue and Gross Profit

The revenue and gross profit for the year ended 31 December 2015 were HK\$528.59 million and HK\$185.02 million respectively. These represented a slight growth of 4.06% in revenue and a drop of 7.21% in gross profit in comparison with the corresponding period of 2014. The disposal of the entire equity interests of Anhui Dang Shan Water Industry Company Limited* (安徽省礪山水業有限公司) (“**Dang Shan**”) and 70% of equity interest of Super Sino Investment Limited (“**Super Sino**”) together with its various wholly-owned subsidiaries (“**Super Sino Group**”) had made both Group’s total revenue and total gross profit to decrease despite Zhu Zhou Biogas project and Shenzhen Xiaping Landfill Site project started to provide positive contribution to the Group. During the year under review, the main revenue contributors were Yichun Water Industry Co., Ltd (“**Yichun Water**”) and Yingtan Water Supply Co., Ltd (“**Yingtan Water**”), which collectively accounted for 40.60% of the revenue and 47.46% of the gross profit. The summary of revenue and gross profit is as follows:

| | Revenue | | | | Gross Profit | | | |
|--|---------------|---------------------------|---------------|---------------------------|---------------|--------------------------------|---------------|--------------------------------|
| | 2015 | | 2014 | | 2015 | | 2014 | |
| | <i>HK\$'M</i> | <i>% to total revenue</i> | <i>HK\$'M</i> | <i>% to total revenue</i> | <i>HK\$'M</i> | <i>% to total gross profit</i> | <i>HK\$'M</i> | <i>% to total gross profit</i> |
| Water supply business | 119.06 | 22.52 | 159.22 | 31.34 | 49.02 | 26.49 | 63.92 | 32.06 |
| Sewage treatment business | 48.38 | 9.15 | 45.76 | 9.01 | 19.75 | 10.67 | 20.50 | 10.28 |
| Construction services business | 294.57 | 55.73 | 283.29 | 55.77 | 101.05 | 54.62 | 109.39 | 54.86 |
| Exploitation and sale of renewable energy business | 66.58 | 12.60 | 19.69 | 3.88 | 15.20 | 8.22 | 5.58 | 2.80 |
| Total | <u>528.59</u> | <u>100</u> | <u>507.96</u> | <u>100</u> | <u>185.02</u> | <u>100</u> | <u>199.39</u> | <u>100</u> |

Other operating income

For the year ended 31 December 2015, other operating income was HK\$52.27 million (2014: HK\$30.99 million). The increase of other operating income by HK\$21.28 million was mainly attributable to dividend income from investment and government grant. Other income comprised mainly interest income of HK\$7.89 million, consultancy fee income of HK\$12.54 million for the provision of advisory services on sewage treatment monitoring control system, dividend income from investments of HK\$10.43 million, VAT refund of HK\$5.28 million and government grant of HK\$6.22 million.

Reversal of impairment loss recognised on an associate

The reversal of impairment loss of HK\$33.54 million (2014: Nil) was related to Jinan Hongquan Water Production Co. Ltd (濟南泓泉制水有限公司) (“**Jinan Hongquan**”) whose business activity is the provision of water supply service. The reversal was due to the recovery of Jinan Hongquan’s recoverable amount, resulting from the increase in water tariff in Jinan Hongquan effective in May 2015.

Net loss on financial assets at fair value through profit or loss

Included in net loss on financial assets at fair value through profit or loss of HK\$90.63 million comprised (i) HK\$30.40 million for the fair value loss on investment funds; (ii) HK\$15.27 million for the realised gain on disposal of listed equity securities and investment fund; and (iii) HK\$75.50 million for the loss arising from the change in fair value of listed securities (2014: net gain of HK\$94.75 million). In 2014, the Company invested in total of HK\$105 million into two unlisted United States dollar (“US\$”) based investment funds (“**Funds**”) including HK\$75 million of Fund A (“**Fund A**”) and HK\$30 million of Fund B (“**Fund B**”) respectively. The Funds primarily invest in listed securities in the Asian market. The fair value of these unlisted financial assets are based on the net asset value (“NAV”) of the Funds calculated on the last day of each calendar month and reported by the fund manager accordingly. The change in fair value on these financial assets of HK\$30.40 million was solely on the loss of the NAV of the Fund A. During the year, the Company requested the fund manager to redeem Fund B in whole. Subsequent to the year ended, the Company sold the benefit and right of redemption income of Fund B to an independent third party and recognized a gain on disposal. In view of the recent volatile stock market performance in second half of 2015, the fair value of certain listed securities below its costs, the fair value loss amounting to HK\$75.50 million has been recognized. The fair value of the listed securities are determined based on the quoted market bid prices available on the Stock Exchange. The Funds and listed equity securities are held for trading purpose and classified as current assets of the Group. The Group will continue to monitor the performance of its investments cautiously due to recent uncertain market conditions.

Selling and distribution expenses and administrative expenses

For the year ended 31 December 2015, selling and distribution expenses together with administrative expenses were collectively slid by HK\$4.35 million from HK\$175.59 million in 2014 to HK\$171.24 million in 2015 mainly due to absence of license fees for intangible assets of HK\$3 million paid in 2014. These expenses mainly consisted of staff costs of HK\$94.92 million, legal and professional fees of HK\$4.85 million, rent and rates of HK\$6.71 million, repairs and maintenance of HK\$2.15 million and depreciation of HK\$8.69 million.

Net gain on disposal of available-for-sale investments

Included in net gain on disposal of available-for-sale investments (“**AFS**”) of HK\$12.72 million (2014: HK\$40.65 million) was HK\$12.66 million for the disposal of investments in Yingtan Water City Trillion Property Company Limited* (“**Yingtan Trillion Property**”) (鷹潭市中兆置業有限公司) and HK\$0.06 million of gain on disposal of listed equity securities in Hong Kong.

Impairment loss recognized on available-for-sale investments

Included in impairment loss recognized on AFS of HK\$58.54 million (2014: HK\$16.35 million) was HK\$53.75 million for the fair value loss on investment fund and HK\$4.79 million for the loss arising from the change in fair value of listed securities. In 2015, the Company invested HK\$80 million into an unlisted US\$ based investment fund (“**Fund C**”). The basis of calculating the fair value of Fund C NAV is the same as the foregoing Funds. Due to a significant and prolonged decline in the fair value of AFS at the end of reporting period below its costs, impairment losses amounting to HK\$58.54 million have been recognised during the year which was reclassified from the investment revaluation reserve.

Finance costs

For the year ended 31 December 2015, the finance costs of the Group were HK\$8.84 million, representing a decrease of HK\$12.83 million from HK\$21.67 million for the same period of last year. The decrease was mainly due to the redemption of convertible bonds (“CB”) upon maturity in October 2014 and January 2015. The finance costs included mainly interest on other loans of HK\$5.86 million.

Impairment loss on goodwill, property, plant and equipment, concession intangible assets and other intangible assets

The impairment loss on goodwill, property, plant and equipment, concession intangible assets and other intangible assets of the Group for the 2015 recorded HK\$4.07 million (2014: HK\$6.96 million), HK\$1.62 million (2014: nil), HK\$6.38 million (2014: nil) and HK\$0.87 million (2014: nil) respectively, which were provided for Jining Haiyuan project, Gaoming Huaxin project and Zhuzhou project of HK\$3.07 million, HK\$6.64 million and HK\$3.23 million respectively. During the year, the revenue and/or gross profit margin of Jining Haiyuan project, Gaoming Huaxin project and Zhuzhou project were reduced as compared to 2014. The reduction was mainly attributable to (i) the decrease in sewage treatment rate per tonne of Jining Haiyuan project and Gaoming Huaxin project; and (ii) the on-grid electricity rate per kilowatt charged by Zhuzhou project dropped. As a result, the recoverable amounts of these cash generating units decreased.

Share of results from associates

The Group had three associated companies, including 35% equity interests in Jinan Hongquan, 30% equity interests in Super Sino Group and 10% equity interests in Yu Jiang Hui Min Small-Sum Loan Company Limited (“**Yu Jiang Hui Min**”). For the year ended 31 December 2015, the Group shared the profit of HK\$7.33 million (2014: HK\$0.06 million) which included the profit of HK\$2.85 million from Jinan Hongquan, the profit of HK\$5.04 million from Super Sino Group and the loss of HK\$0.56 million from Yu Jiang Hui Min.

Income tax

Income tax expense represents income tax payable by the Group under relevant income tax rules and regulations where the Group operates. Income tax expense consists of current income tax and deferred income tax. Current income tax consists of PRC enterprise income tax at a rate of 25% that the PRC subsidiaries of the Group pay on their taxable income. Hong Kong profits tax is calculated at 16.5% of the estimated assessable profits for our subsidiaries in Hong Kong. Deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. Income tax expense decreased by HK\$41.84 million to HK\$19.94 million (2014: HK\$61.78 million). The decrease was primarily due to PRC tax on gain on disposal of Super Sino Group which occurred in 2014 and the Hong Kong profits tax on gain on financial assets at fair value through profit or loss in 2014. As of 31 December 2015, the Group had fulfilled all its tax obligations and did not have any tax disputes.

Loss attributable to Owners of the Company

For the year ended 31 December 2015, loss attributable to owners of the Company was HK\$97.50 million (2014: profit of HK\$203.62 million), a substantial decrease in profit of HK\$301.12 million primarily due to the negative change in fair value of financial assets through profit or loss and impairment loss recognized on AFS.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2015, the Group recorded cash and bank balance including cash held at financial institutions of HK\$476.87 million (compared with HK\$324.07 million on 31 December 2014). The increase was mainly due to placing of new shares and borrowing of loans. With the steady cash flows, the Group will have sufficient working capital to meet its financial obligations in full as they fall due in the foreseeable future. The cash and bank balance were denominated in Hong Kong dollars and Renminbi.

The net current assets for the Group in 2015 were HK\$511.76 million (2014: net current assets of HK\$446.81 million). The current ratio (current assets over current liabilities) is 1.72 times (2014: 1.92 times) as at 31 December 2015.

Net asset value was HK\$1,652.56 million (2014: HK\$1,269.99 million). Net asset value per share was HK\$1.04 (2014: HK\$0.95), increased by 9.47% from the end of 2014.

The Group's consolidated non-current assets as at 31 December 2015 increased by HK\$395.17 million to HK\$1,396.11 million (compared with HK\$1,000.94 million on 31 December 2014) which was mainly due to the increase in AFS and acquisition for property, plant and equipment.

As at 31 December 2015, the financial assets at fair value through profit or loss of the Company decreased by HK\$18.47 million to HK\$220.06 million (2014: HK\$238.53 million). The reduction was due to the decrease in NAV of Funds and share price of certain equity securities listed in Hong Kong and disposal of Fund B and equity securities in the year. The portfolio investment comprised (i) HK\$114.93 million of Fund A, including accumulated fair value gain and income of HK\$39.93 million (2014: HK\$179.27 million after increasing fair value gain of HK\$74.27 million) and (ii) equity securities listed in Hong Kong of HK\$105.13 million (2014: HK\$59.26 million).

As at 31 December 2015, the AFS of the Company recorded at fair value of HK\$181.42 million (2014: HK\$26.02 million). The increase was due to investment of Fund C and additional investments in equity securities listed in Hong Kong acquired by the Company. The portfolio investments comprised (i) equity securities listed in Hong Kong of HK\$146.41 million (2014: HK\$26.02 million) and unlisted US\$ investment fund of HK\$35.01 million (2014: nil).

Total liabilities of the Group as at 31 December 2015 were HK\$969.10 million (compared with HK\$663.21 million on 31 December 2014). Total liabilities mainly comprised of the bank and other borrowings of HK\$416.47 million (2014: HK\$155.75 million), deferred government grants of HK\$17.26 million (2014: HK\$19.24 million), trade and other payables of HK\$306.04 million (2014: HK\$157.95 million), amounts due to customers for contract works of HK\$112.18 million (2014: HK\$58.42 million), amounts due to non-controlling shareholders of HK\$27.90 million (2014: HK\$59.53 million) and deferred tax liabilities of HK\$54.58 million (2014: HK\$65.66 million). The increase of the new other loans included bonds with a principal amount of HK\$200 million at a fixed coupon interest of 10% per annum from Prosper Talent Limited (“**Fixed-rate New Other Loan**”). Except for the following Fixed-rate New Other Loan denominated in HK\$, borrowings were mainly denominated in Renminbi.

On 1 April 2015, the Company and Prosper Talent Limited entered into a Subscription Agreement in respect of the issuance of other loans with an aggregate principal amount of not more than HK\$300 million at a fixed coupon interest of 10% per annum, comprising of the Series A Bond, Series B Bond and Series C Bond. Series A Bond and Series B Bond with an aggregate amount of HK\$200 million, were issued on 9 April 2015 and 8 May 2015, respectively. This Fixed-rate New Other Loan will mature in one year from the date of issuance and were classified as short-term loans. The Company did not request for Series C Bond on or before 15 September 2015 and Series C Bond automatically lapsed thereafter.

As at 31 December 2015, the Group’s total bank and other borrowings increased by HK\$260.72 million to HK\$416.47 million (2014: HK\$155.75 million), mainly due to the Fixed-rate New Other Loan. For the maturity profile, refer to the table below:

| | 31 December 2015 | | 31 December 2014 | |
|--|-------------------------|---------------------|-------------------------|--------------|
| | <i>HK\$’000</i> | <i>%</i> | <i>HK\$’000</i> | <i>%</i> |
| Classified by maturity | | | | |
| – repayable within one year | | | | |
| Bank borrowings | 29,007 | 6.97 | 49,258 | 31.63 |
| Other loans | 203,982 | 48.97 | 13,619 | 8.74 |
| | <u>232,989</u> | <u>55.94</u> | <u>62,877</u> | <u>40.37</u> |
| Classified by maturity | | | | |
| – repayable more than one year | | | | |
| Bank borrowings | 103,852 | 24.94 | 33,598 | 21.57 |
| Other loans | 79,627 | 19.12 | 59,270 | 38.06 |
| | <u>183,479</u> | <u>44.06</u> | <u>92,868</u> | <u>59.63</u> |
| Total bank and other borrowings | <u>416,468</u> | <u>100</u> | <u>155,745</u> | <u>100</u> |
| Classified by type of loans | | | | |
| Secured | 123,309 | 29.61 | 50,518 | 32.44 |
| Unsecured | 293,159 | 70.39 | 105,227 | 67.56 |
| | <u>416,468</u> | <u>100</u> | <u>155,745</u> | <u>100</u> |

| | 31 December 2015 | | 31 December 2014 | |
|---------------------------------------|------------------|------------|------------------|------------|
| | HK\$'000 | % | HK\$'000 | % |
| Classified by type of interest | | | | |
| Fixed rate | 259,196 | 62.24 | 44,490 | 28.57 |
| Variable-rate | 87,141 | 20.92 | 62,014 | 39.81 |
| Interest free rate | 70,131 | 16.84 | 49,241 | 31.62 |
| | <u>416,468</u> | <u>100</u> | <u>155,745</u> | <u>100</u> |

The Group's gearing ratio as at 31 December 2015 was 36.97% (2014: 34.31%). The ratio was calculated by dividing total liabilities of HK\$969.10 million over total assets of the Group of HK\$2,621.66 million.

TRADE AND OTHER RECEIVABLES

As at 31 December 2015, the Group's trade and other receivables were approximately HK\$305.61 million (31 December 2014: HK\$171.68 million). These comprised of: (i) trade receivables of HK\$35.68 million, (ii) other receivables of HK\$72.73 million, (iii) deposits and prepayments of HK\$139.90 million and (iv) loans receivables of HK\$57.30 million. During the year under review, the trade receivables slightly increased by HK\$5.43 million to HK\$35.68 million (2014: HK\$30.25 million). The average turnover period of the trade receivables as at 31 December 2015 were 26 days (2014: 26 days). The Group allows a credit period of 5 to 180 days to its customers. The average turnover period of the trade receivables fell within stipulated credit period. Other receivables increased by HK\$61.29 million to HK\$72.73 million (2014: HK\$11.44 million) which mainly included (i) a net receivable of HK\$36.0 million from the disposal of investments in Fund B (ii) a receivable of HK\$14.00 million from the disposal of investment in a property development company named Yingtan Trillion Property. The deposits and prepayments substantially increased by HK\$113.21 million to HK\$139.90 million (2014: HK\$26.69 million) which mainly included prepayments and tender deposits of HK\$78.04 million paid to independent third parties for construction projects and material procurement deposit of HK\$47.75 million. Loans receivables increased by HK\$42.30 million to HK\$57.30 million (2014: HK\$15 million) were loans to two unrelated parties which bear fixed annual interest rate at 36%. Subsequent to 31 December 2015, the material procurement deposit was fully refunded due to cancellation of the purchase and the partial payment of HK\$20 million for the disposal of Fund B was received. The tender deposits, other receivables and loan receivables are still outstanding subsequent to year end.

INVENTORIES

As at 31 December 2015, inventories of HK\$204.38 million (2014: HK\$184.04 million) comprised of (i) properties under development for sale of HK\$173.64 million, raw materials of HK\$30.05 million and finished goods of HK\$0.69 million. Properties under development for sale represented the construction of new commercial buildings for sale by Yingtan Xiang Rui Property Limited* (鷹潭祥瑞置業有限公司) ("Xiang Rui Property") at Yingtan, Jiangxi Province, the PRC, an indirect non wholly-owned subsidiary of the Company. The construction has commenced in February 2014 and is expected to be completed by the end of June 2016.

TRADE AND OTHER PAYABLES

As at 31 December 2015, the Group's trade and other payables were approximately HK\$306.04 million (2014: HK\$157.95 million). The credit terms of trade payables vary according to the terms agreed with different suppliers.

CAPITAL RAISING AND USE OF PROCEEDS

PLACING OF NEW SHARES OF THE COMPANY

On 26 May 2015, the Company entered into the subscription agreement with 5 subscribers (“**Subscribers**”), pursuant to which the Company agreed to issue and allot and the Subscribers agreed to subscribe an aggregate of 266,000,000 subscription shares at HK\$1.88 per Share. The Subscribers included Prosper Talent Limited, Outstanding Global Holdings Limited, Yue Xiu Great China Fixed Income Fund VI LP, Quantum Enhanced Fund and Yuxing Technology Company Limited. The Subscribers and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons (as defined in the Listing Rules), and independent of and not acting in concert (as defined in the Takeovers Code) with the Company and parties acting in concert with it. The Company considered that the Subscription offers a good opportunity to raise additional funds to strengthen the financial position and broaden the capital base of the Group, and to raise capital for possible future investments of the Group. The closing price of the Share as quoted on the Stock Exchange on 22 May 2015, being the last trading day prior to the date of the Subscription Agreement, was HK\$2.31 per Share. The closing price of the Share as quoted on the Stock Exchange on 26 May 2015, being the date of the Subscription Agreement, was HK\$2.30 per Share. The average closing price as quoted on the Stock Exchange for the last five consecutive trading days prior to the date of the Subscription Agreement was HK\$2.304 per Share. The transaction was completed on 2 June 2015 and 5 June 2015. After taking into account the share issue expenses of approximately HK\$0.4 million, the net price raised per Subscription Share was about approximately HK\$1.88. The Company planned to apply the net proceeds from the Subscription as to (i) approximately 10% for general working capital purpose; and (ii) approximately 90% for future business development and investment of the Group. The net proceeds of HK\$499.70 million have been utilised by the Group as to (i) approximately HK\$179.30 million for the increase in the registered share capital of New China Water (Nanjing) Renewable Resources Investment Company Limited* (Formerly known as Greenspring (Nanjing) Recycling Resources Investment Co., Ltd.*) (“**New China Water (Nanjing)**”), an indirect wholly-owned subsidiary of the Company; (ii) approximately HK\$135.10 million for the registered share capital of Swan (Huizhou) Investment Company Limited (“**Swan (Huizhou)**”), an indirect wholly-owned subsidiary of the Company; (iii) approximately HK\$80 million for the investment of listed equity securities; and (iv) approximately HK\$61.16 million for general working capital of the Group including office operating expenses, loan interest payments and tax payments. The remaining unutilised net proceeds are held in banks for future use as intended.

Save as disclosed above, the Company has not conducted any equity fund raising activities during the year.

During the year, the Group incurred capital expenditures amounting to HK\$59.60 million (2014: HK\$57.99 million) for acquisition of concession intangible assets.

BUSINESS REVIEW

2015 was the last year of China's development under the "12th Five-Year Plan" and a year with an "explosion" of environmental protection policies. The PRC government promulgated a series of policies to support the environmental protection industry, attaching the utmost importance to air, water and soil pollution control as well as the construction of ecological civilization. As China accelerates into comprehensive reform, pushing toward a new growth model focusing on green, low-carbon and continuous improvement of people's livelihood, China's green economy and environmental protection industry are set to embrace an unprecedented opportunity for long-term growth. In recent years, the Group has diversified its business into renewable energy business so as to thrive in an industrial environment filled with these huge opportunities. 8 projects were newly signed in 2015 for renewable energy business. Upon the commencement of operation of these projects, addition new source of income will bring to the Group.

2016 marks the first year of China's 13th Five-year Plan. A number of issues, such as the imbalance of rural and urban development and an increasing shortage of resources and ecological degradation have not seen significantly improvement. These will pose challenges as well as immense opportunities in the next five years. The main goal and overall philosophy of economic and social development during the 13th five-year period is to improve eco-environmental quality and advocate the theme of green for ensuring lasting development as well as an important way in which people pursue a better quality of life. The adoption of green and low-carbon production mode and lifestyle will be increased. Efficiency of the development and utilization of energy resources will be improved significantly. The consumption of energy and water resources, construction of land, and carbon emission will be effectively reduced. These have accelerated the need to construct a comprehensive ecological civilization system generating large amounts of investment and growth potential for the environmental management and services market. To capture these huge opportunities and adhere to the Group's corporate vision "Making the World endowed with Clear Water, Blue Sky and Vivid Green Land", the Group has actively been exploring in the areas of environmental friendly renewable energy business through merger and acquisition and continue to invest more resources in water supply and sewage treatment businesses.

Water supply business

There are 5 city water supply projects of the Group (including 2 water supply projects of associated companies) well spread in various provincial cities and regions across China, including Jiangxi, Shandong and Hainan (2014:6 water supply projects). The daily aggregate water supply capacity was approximately 1.91 million tonne (including the capacity of 1.60 million tonne of two associated companies). The revenue and gross profit from water supply business amounted to HK\$119.06 million and HK\$49.02 million respectively, representing 22.52% and 26.49% of the Group's total revenue of HK\$528.59 million and total gross profit of HK\$185.02 million respectively. The overall gross profit ratio was 41.17% (2014: 40.15%). The rates for the water supply ranged from HK\$1.50 to HK\$2.26 per tonne.

Analysis of water supply projects on hand is as follows:

| | Project name | Equity interest held by the Company (%) | Designed annual capacity of water supply (tonne) | Provincial cities in PRC | Exclusive operating right (expiry in) |
|---|-----------------------|--|---|---------------------------------|--|
| 1 | Yichun Water | 51 | 160,000 | Jiangxi | 2034 |
| 2 | Yingtian Water Supply | 51 | 100,000 | Jiangxi | 2038 |
| 3 | Linyi Fenghuang | 60 | 50,000 | Jiangxi | 2037 |
| 4 | Jinan Hongquan | 35 | 1,500,000 | Shandong | 2036 |
| 5 | Super Sino Group | 30 | 100,000 | Hainan | 2037 |
| | Total | | 1,910,000 | | |

Sewage treatment business

There are 3 sewage treatment projects of the Group located in Jiangxi, Guangdong and Shandong provinces (2014: 3 sewage treatment projects). The daily aggregate sewage disposal capacity was approximately 150,000 tonne (2014:130,000 tonne) generating a revenue of HK\$48.38 million and gross profit of HK\$19.75 million, representing 9.15% and 10.67% of the Group's total revenue of HK\$528.59 million and total gross profit of HK\$185.02 million respectively. The gross profit ratio was 40.82% (2014: 44.80%). The rates for sewage treatment ranged from HK\$0.70 to HK\$1.62 per tonne.

Analysis of sewage treatment projects on hand is as follows:

| | Project name | Equity interest held by the Company (%) | Designed annual sewage disposal capacity (tonne) | Provincial cities in PRC | Exclusive operating right (expiry in) |
|---|---------------------|--|---|---------------------------------|--|
| 1 | Jining Haiyuan | 70 | 30,000 | Shandong | 2036 |
| 2 | Gaoming Huaxin | 70 | 20,000 | Guangdong | 2033 |
| 3 | Yichun Fangke | 54.33 | 100,000 | Jiangxi | 2031 |
| | | | 150,000 | | |

Construction services for water supply and sewage treatment infrastructure

Construction services included water meter installation, infrastructure construction and pipeline construction and repair. The projects mainly located in provincial cities of Jiangxi and Shandong. These were the Group's major sources of revenue and gross profit contributing HK\$294.57 million and HK\$101.05 million respectively, representing 55.73% and 54.62% of the Group's total revenue of HK\$528.59 million and total gross profit of HK\$185.02 million respectively. The overall gross profit ratio was 34.30% (2014: 38.61%).

Exploitation and sale of renewable energy business

As at 31 December 2015, the Group has successfully secured 8 biogas power generation projects which are located in various provincial cities across China including Jiangsu, Hunan and Guangdong. These projects add a total of designed annual household waste processing capacity of 4.74 million tonne and could extract biogas from the household waste of 158.28 million m³ annually which in turn could annually generate 116.56 million kilowatt of on-grid electricity and 57.40 million m³ of compressed natural gas (“CNG”). The revenue and gross profit generating from exploitation and sale of renewable energy business amounted to HK\$66.58 million and HK\$15.2 million respectively, representing 12.60% and 8.22% of the Group’s total revenue of HK\$528.59 million and total gross profit of HK\$185.02 million respectively, which contributed from Nanjing Jiaozishan project, ZhuZhou Biogas project and Shenzhen Xiaping Landfill Site project from selling electricity to provincial power grid companies, and receiving tariff adjustment from relevant government authorities and selling CNG to external customers. Comparing with last year, the revenue and gross profit increased by HK\$46.89 million and HK\$9.62 million respectively. This was mainly because ZhuZhou Biogas project commenced full operation in 2015 and Shenzhen Xiaping Landfill Site project has started its operation in July 2015. The overall gross profit ratio was 22.83% (2014: 28.34%), the average electricity rate was HK\$0.73 per kilowatt and the average CNG rate was HK\$2.83 per m³.

Analysis of renewable energy projects on hand is as follows:

| Project name | Provincial cities in PRC | Business mode | Equity interest held by Company (%) | Annual designed | Estimated annual biogas output (m ³) | Estimated annual On-grid electricity (kilowatt) | Estimated annual CNG (m ³) | Actual/ | Exclusive right to collect landfill gas expiry in |
|----------------------------------|--------------------------|------------------|-------------------------------------|---|--|---|--|---|---|
| | | | | household waste processing capacity (tonne) | | | | Expected Commencement date of operation | |
| 1 Nanjing Jiaozishan | Jiangsu | Power generation | 100 | 584,000 | 9,400,000 | 18,800,000 | – | October 2013 | June 2025 |
| 2 ZhuZhou Biogas | Hunan | Power generation | 100 | 365,000 | 9,400,000 | 18,800,000 | – | November 2014 | October 2023 |
| 3 Shenzhen Pingshan | Guangdong | Power generation | 100 | 237,300 | 9,400,000 | 18,800,000 | – | December 2015 | September 2024 |
| 4 Changsha Operation Contract* | Hunan | Power generation | – | 1,825,000 | 30,080,000 | 60,160,000 | – | May 2014 | October 2039 |
| 5 Changsha Qiaoyi Landfill Site* | Hunan | CNG | 91 | | | | | | |
| 6 Shenzhen Xiaping Landfill Site | Guangdong | CNG | 88 | 1,275,000 | 48,000,000 | – | 28,800,000 | July 2015 | April 2030 |
| 7 Liuyang Biogas | Hunan | CNG | 100 | 200,800 | 4,000,000 | – | 2,200,000 | June 2016 | October 2038 |
| 8 Qingshan Landfill Site | Guangdong | CNG | 100 | 255,500 | 8,000,000 | – | 4,400,000 | January 2016 | July 2024 |
| | | | | <u>4,742,600</u> | <u>158,280,000</u> | <u>116,560,000</u> | <u>57,400,000</u> | | |

* Projects Changsha Operation Contract and Changsha Qiaoyi Landfill Site are sharing household waste resources in the same site in Changsha.

ACQUISITION/FORMATION OF RENEWABLE ENERGY PROJECTS DURING THE YEAR UNDER REVIEW

During the year, the Group have successfully signed several sales and purchases agreements and/or co-operation agreement with the related parties to acquire and/or establish the following renewable energy projects.

| Project name | Note | Provincial cities in PRC | Business mode | Equity interest held by Company (%) | Annual designed household waste processing capacity (tonne) | Estimated annual biogas output (m ³) | Estimated annual On-grid electricity (kilowatt) |
|------------------------------|------------|--------------------------|------------------|-------------------------------------|---|--|---|
| 1 Baoji | <i>i</i> | Shaanxi | Power generation | 100 | 310,000 | 6,266,667 | 12,533,333 |
| 2 Wuzhou Landfill Project | <i>ii</i> | Guangxi | Power generation | 100 | 182,000 | 7,520,000 | 15,040,000 |
| 3 Chengdu City | <i>iii</i> | Sichuan | Power generation | 49 | 1,460,000 | 78,208,000 | 156,416,000 |
| 4 Chenzhou Environmental | <i>iv</i> | Hunan | Power generation | 100 | 219,000 | 4,775,200 | 9,550,400 |
| 5 Huayin Heng Yang | <i>iv</i> | Hunan | Power generation | 100 | 365,000 | 1,857,675 | 3,715,350 |
| 6 Chongqing Camda | <i>v</i> | Chongqing | Power generation | 100 | 1,200,000 | 22,560,000 | 45,120,000 |
| 7 Hainan Camda | <i>v</i> | Hainan | Power generation | 100 | 201,000 | 7,520,000 | 15,040,000 |
| 8 Shenzhen Weimin Ecological | <i>vi</i> | Guangdong | Garbage sorting | 55 | 475,000 | – | – |
| | | | | | 4,412,000 | 128,707,542 | 257,415,083 |

(i) Baoji Project

On 3 August 2015, New China Water (Nanjing) entered into Sale and Purchase Agreement (“**S&P Agreement**”) with Mr. Yu Gong Hung* (魚江鴻) and Mr Li Hoi Gong* (李海剛) (collectively known as “**Vendors**”) to acquire the entire issued share capital of Baoji City Electric Power Development Co., Ltd* (寶雞市易飛明達電力發展有限公司) (“**Baoji Project**”) for a consideration of RMB12.23 million. Baoji Project includes (i) the operation of landfill gas power generator plant located in Baoji City landfill site, Shaanxi Province, the PRC and (ii) the operation of landfill gas emission-reduction plant which converts landfill gas into natural gas and electricity also located in Baoji City landfill site, Shaanxi Province, the PRC. As the conditions for completion have not been fulfilled by the Vendors, the Group has not paid any consideration and the acquisition is not completed.

(ii) Wuzhou Landfill Project

On 21 August 2015, New China Water (Nanjing), Wuzhou City Municipal and Landscape Garden Administration Bureau* (梧州市市政和園林管理局) (“**Wuzhou City Municipal**”) and Wuzhou City Urban Waste Disposal Co., Ltd.* (梧州市城市廢棄物處理有限責任公司) (“**Wuzhou City Company**”) entered into the development and operation agreement (“**Co-operation Agreement**”) in relation to the comprehensive utilisation project of the landfill gas resources in respect of the household garbage landfill site in Wuzhou City. Wuzhou City Company is an entity under Wuzhou City Municipal and owns the corresponding rights of the land use right and garbage resources disposal right of the household garbage landfill in Wuzhou City. As agreed by Wuzhou City Municipal, it was decided to construct a comprehensive utilisation project for landfill gas resources at the existing garbage landfill

site. New China Water (Nanjing) will establish a project company to develop the household garbage sanitation landfill site in Wuzhou City (“**Wuzhou Landfill Project**”). The term of the project development and operation is six years, commencing from the date of commercial operation of such project. Upon the expiry of the term of development and operation, it can be renewed for a term not exceeding 3 years. Starting from the date of the project is put into operation, on a monthly basis, New China Water (Nanjing) or the project company is required to pay Wuzhou City Company 5% of the sales revenue from its CNG products as resource utilisation fee. New China Water (Nanjing) is responsible for conducting the engineering construction and production of Wuzhou Landfill Project. The project company named Wuzhou City China Water New Renewable Resources Company Limited* (梧州市中水新能源科技有限公司) was formed in September 2015.

(iii) **Chengdu City Project**

On 15 September 2015, New China Water (Nanjing) enter into Sale and Purchase Agreements with 韓國(株)漢陽 ENG# (Hanyang ENG Co., Ltd.*), RTS股份有限公司# (Re-Tech Solution Co., Ltd.), 韓國產業銀行# (Korea Development Bank*) and 首都圈垃圾填埋場管理公社# (Sudokwon Landfill Site Management Corp.) respectively, to acquire in aggregate of 49% equity interest of Chengdu City Green State Renewable Energy Co., Limited (成都市綠州新再生能源有限責任公司) (“**Chengdu City Project**”) at an aggregate consideration of approximately RMB50.20 million. Chengdu City Project owns an operation right to operate a landfill gas power generator plant in Changan landfill site, Sichuan Province, the PRC. The landfill gas power generator plant is still under construction. Upon the completion of the construction of its landfill gas power generator plant, Chengdu City Project will principally engage in (i) the collection, purification, power generation and the development of Clean Development Mechanism projects regarding the landfill gases generated from phase one and phase two of Changan landfill site; (ii) the sales of electricity; and (iii) the trading of carbon credits derive from emission reduction by landfill gases. Up to the date of this announcement, as the conditions for completion have not been fulfilled, the group has not paid any consideration and the acquisition is not completed.

(iv) **Chenzhou Environmental and Huayin Heng Yang Projects**

On 21 September 2015, New China Water (Nanjing) and Datang Huayin Electric Power Co., Ltd* (大唐華銀電力股份有限公司) entered into the acquisition agreements to acquire (i) entire equity interests of Datang Huayin Chenzhou Environmental Power Company Limited* (大唐華銀郴州環保發電有限公司) (“**Chenzhou Environmental Project**”) and (ii) entire equity interests of Datang Huayin Heng Yang Environmental Power Company Limited* (大唐華銀衡陽環保發電有限公司) (“**Huayin Heng Yang Project**”) for a consideration of RMB14.0 million and RMB11.0 million, respectively. Chenzhou Environmental principally engages in solid waste detox treatment and landfill gas power generation in Xiangshan Ping, Suxian District, Chenzhou City, Hunan Province. Huayin Heng Yang Environmental principally engages in solid waste detox treatment and landfill gas power generation in Zhang Mu Town, Hengyang County, Hunan Province. As at 31 December 2015, the Company had paid the entire consideration of HK\$29.84 million as deposits. The acquisitions were completed on 3 March 2016.

(v) **Chongqing Camda and Hainan Camda Projects**

On 25 November 2015, New China Water (Nanjing) and Camda New Energy Equipment Company Limited* (康達新能源設備股份有限公司) entered into two sale and purchase agreements to acquire (i) the entire equity interest of Chongqing Camda New Energy Equipment Company Limited* (重慶康達新能源有限公司) (“**Chongqing Camda Project**”) and (ii) entire equity interest of Hainan Camda New Energy Equipment Company Limited* (海南康達新能源有限公司) (“**Hainan Camda Project**”) at an aggregate consideration of approximately RMB51.2 million. Chongqing Camda operates the Chongqing Changshengqiao Landfill gas collection and power generation project until 2028 pursuant to the Chongqing Changshengqiao Landfill gas collection project cooperation agreement* (重慶長生橋垃圾衛生填埋場沼氣收集和利用項目合作協定書). Hainan Camda operates the Haikou City Yan Chunling Landfill gas utilization and power generation project. Up to the date of this announcement, the acquisitions are not completed as the conditions for completion have not been fulfilled. In March 2016, the Group had paid partial consideration of RMB10.27 million for Chongqing Camda project only.

(vi) **Shenzhen Weimin Ecological Project**

On 22 December 2015, New China Water (Nanjing), Shenzhen Weimin Environmental Protection Technological R&D Company Limited* (深圳市為民環保科技開發有限公司) and Shenzhen Weimin Ecological Technology Company Limited*(深圳市為民生態技術有限公司) (“**Shenzhen Weimin Ecological Project**”) entered into the Subscription and Capital Injection Agreement, pursuant to which New China Water (Nanjing) has conditionally agreed to subscribe for and inject RMB40 million into Shenzhen Weimin Ecological. New China Water (Nanjing) will hold 55% equity interest of Shenzhen Weimin Ecological upon Completion. Shenzhen Weimin Ecological Project is engaged in technology development of environmental protection equipment; municipal solid waste cleaning and collection services; waste gas and waste water treatment; development of biogas purification technology; and comprehensive treatment of municipal solid waste. Shenzhen Weimin Ecological Project had entered into agreements with the local government to invest, operate and provide waste treatment services for a build-operate-own project of a landfill plant in a landfill located Longgang District, Shenzhen, the PRC until 2021. Up to the date of this announcement, as the conditions for completion have not been fulfilled, the Group has not paid any consideration and the acquisition is not completed.

OTHER EVENTS DURING THE YEAR UNDER REVIEW

Adjustment to water tariff

On 17 June 2015, Jinan City Municipal Price Bureau* (濟南市物價局), Shandong Province, the People’s Republic of China approved Jinan Hongquan to increase in its water tariff charging from RMB1.095 to RMB1.560 per tonne with effect from 23 May 2015.

Redemption of CB

On 16 October 2013, the Company and Prosper Talent Limited entered into Subscription Agreement in respect of the issue of and subscription for CB in aggregate amount of HK\$200 million, comprising Series A Bond and Series B Bond. The Company had fully redeemed the Series A Bond and Series B Bond on 30 October 2014 and 14 January 2015 upon maturity (“**Redemption**”). Following the Redemption, the Company has no outstanding CB.

FORMATION OF RENEWABLE ENERGY PROJECT AFTER THE YEAR UNDER REVIEW

He County Project

On 4 February 2016, New China Water (Nanjing) and He County City Bureau* (和縣城市管理局) entered into an innocuous deodorization and resource recycling utilization agreement (“**Contract**”) for the garbage gas at He County Household Garbage Landfill Site (“**He County Landfill Site**”) in Xi Fu Town Ji Long Village* (西埠鎮雞籠山村), Anhui Province, PRC (“**He County Project**”). He County City Bureau has engaged New China Water (Nanjing) to collect and conduct innocuous deodorization treatment for all garbage gas generated from He County Landfill Site. Pursuant to the Contract, the term of this Contract is 20 years until 23 February 2036 and the daily household garbage in He County Landfill Site shall more than 500 tonne per day (“**Guaranteed Level**”). He County City Bureau shall entitle to receive 10% net profit for resource utilization fee from New China Water (Nanjing). If less than the Guaranteed Level, no resource utilization fee is required to pay. New China Water (Nanjing) is required to form a project company with minimum registered share capital of HK\$30 million for He County Project. Up to the announcement date, the project company has not yet to establish.

LITIGATIONS AND ARBITRATION

Swift Surplus Holdings Limited, an indirect wholly-owned subsidiary of the Company

On 21 August 2012, the Company and its subsidiary of Swift Surplus Holdings Limited (“**Swift Surplus**”) (collectively as the “**Lenders**”) entered into repayment agreements (the “**Repayment Agreements**”) with the Sihui Sewage Treatment Co. Ltd.* (四會市城市污水處理有限公司) and Top Vision Management Limited (“**Top Vision**”) (collectively as the “**Borrowers**”) together with their respective guarantors, pursuant to which, the Borrowers shall repay to the Lenders the loan receivables of approximately HK\$58.43 million together with interest accrued thereon (the “**Loan Receivables**”). HK\$5 million of the Loan Receivables will be repaid on or before 30 September 2012 and the remaining Loan Receivables shall be repaid on or before 31 December 2012. On 29 August 2012, the Company only received HK\$5 million of the Loan Receivables. However, the remaining Loan Receivables of HK\$53.43 million (the “**Remaining Loan Receivables**”) plus underlying interests were not yet received on 31 December 2012. On 22 March 2013, the Lenders have entered into supplemental deeds with the Borrowers together with their respective guarantors, pursuant to which, approximately HK\$18.03 million of the Remaining Loan Receivables and underlying interests shall be repaid to the Lenders on or before 21 March 2014 (the “**Partial Payment of the Remaining Loan Receivables**”). Nevertheless, Swift Surplus and Top Vision and its guarantors could not reach an agreement in respect of the terms and date of the repayment of the outstanding balance of HK\$35.40 million of the Remaining Loan Receivables and underlying interests (the “**Outstanding Balance**”). Despite the Company several requests and demands, Top Vision failed to effect payment of the Outstanding Balance. On 14 May 2013, the Company instructed its legal counsel to file the writ of summons (the “**Writ**”) to the High Court of Hong Kong Special Administrative Region (the “**High Court**”) to recover the Outstanding Balance from Top Vision. On 25 June 2013, the High Court adjudged a final judgment that Top Vision shall pay the Outstanding Balance to Swift Surplus (the “**Final Judgement**”). Top Vision has not performed the repayment obligation under the judgment issued by the High Court. The Company cannot locate any asset of Top Vision in Hong Kong. As advised by the legal counsel, without information on the assets of Top Vision in Hong Kong, the Company cannot enforce the Final Judgment against Top Vision. As the major assets owned by the subsidiaries of Top Vision are

located in Guangdong Province, the PRC, the Company had undertaken recovery actions including but not limited to legal actions taken in PRC to collect the Remaining Loan Receivables. On 20 August 2014, a petition was filed by Galaxaco Reservoir Holdings Limited (“**Galaxaco**”) to wind up Top Vision, one of the creditors of Top Vision. Top Vision has now been wound up by the High Court by a Winding-up Order under Companies Winding-up Proceedings No.157/2014 and the first meeting of creditors of Top Vision was held on 30 October 2014 for the appointment of provisional liquidator. On 14 January 2015, the solicitors act for Galaxaco requested the High Court to have the hearing adjourned for the appointment of liquidators (the “**Appointment**”) pending the alleged negotiation settlement between Top Vision and all creditors including the Company and its subsidiary of Swift Surplus and Galaxaco. On 4 May 2015, The High Court appointed SHINEWING Specialist Advisory Services Limited as liquidators (“**Liquidators**”). The Liquidators have carried out the site visits and performed the investigation on PRC subsidiary of Top Vision. On 16 July 2015, the Zhaoqing Intermediate People’s Court adjudged that the Final Judgement was recognised and accepted to execute in Mainland China for the recovering the Outstanding Balance and the underlying interest from Top Vision (“**PRC Judgement**”). During the year, the Company has instructed its legal counsel to issue demand letters to respective guarantors, if guarantors fail to settle the Remaining Loan Receivables and the underlying interests within stipulated time, the Company will undertake the arbitration and civil action in Hong Kong against the respective guarantors. On 27 January 2016, the PRC Judgement was announced on the website of The People’s Court Announcement for 60 days (“**Announcement Period**”). If Top Vision has not appealed for the PRC Judgement within 30 days after the Announcement Period. The PRC Judgement will be automatically effective thereafter, the Company can enforce the PRC Judgement. As at 31 December 2014 and 2015, the loan receivables from Top Vision of HK\$43.60 million were fully impaired. The Board believed that no significant financial impact will be affected on the Group as sufficient impairment loss on the Loan Receivables has been provided.

Guangzhou Hyde Environmental Protection Technology Co., Ltd., an indirect wholly-owned subsidiary of the Company

Guangzhou Hyde Environmental Protection Technology Co. Ltd.* (廣州市海德環保科技有限公司) (“**Guangzhou Hyde**”) (an indirect wholly-owned subsidiary of the Company) and Yunnan Chaoyue Gas Company Limited* (云南超越燃氣有限公司) (“**Yunnan Chaoyue Gas**”) entered into the cooperation contract dated 13 October 2010, pursuant to which Guangzhou Hyde shall paid a refundable deposit of HK\$10 million (“**Deposit**”) to Yunnan Chaoyue Gas for the purpose of obtaining the operation and management right of the Yunnan Dian Lake project (“**Project**”). Pursuant to the cooperation contract, Yunnan Chaoyue Gas shall refund the Deposit to Guangzhou Hyde within nine months once it was unsuccessfully to obtain the Project. Yunnan Chaoyue Gas has failed to repay the aforesaid Deposit to Guangzhou Hyde when it fell due despite Guangzhou Hyde’s repeated requests and demands. The Deposit was classified as loan receivable and fully impaired in 2011. The dispute over cooperative contract between Guangzhou Hyde and Yunnan Chaoyue Gas was applied to Guangzhou Arbitration Commission (“**Commission**”) for arbitration on 24 February 2012. The Commission accepted the case and started a trail on 5 June 2012. After the trail, arbitration tribunal ruled an award on 12 June 2012, adjudging that Yunnan Chaoyue Gas should pay Guangzhou Hyde the principal of RMB8.56 million and overdue interests thereon; and the relevant arbitration fees.

The above award confirmed the amount to be paid by Yunnan Chaoyue Gas to Guangzhou Hyde should be settled in one-off manner within 10 days from the date on which this award is served. Late payment will result in proceedings set out in article 229 of Civil Procedure Laws of the People’s Republic of China. As Yunnan Chaoyue Gas has not performed repayment obligation under the award on time, Guangzhou Hyde applied to Kunming Intermediate People’s Court (the

“**Kunming Court**”) for civil enforcement on 21 July 2012, and Kunming Court has accepted such application. On 13 May 2013, Yunnan Chaoyue Gas provided loan repayment plan (the “**Repayment Plan**”) to Guangzhou Hyde. On 1 September 2014, Kunming Court has approved the civil enforcement against Yunnan Chaoyue Gas. Up to the announcement date, Yunnan Chaoyue Gas has not performed the repayment obligation according to the Repayment Plan. The aforesaid litigation is unlikely to have any significant material adverse financial impact on the Group.

Save as disclosed above, the Group is not aware of any other significant proceedings instituted against the Group.

KEY RISKS AND UNCERTAINTIES

Our Group’s financial condition results of operations and business prospects may be affected by a number of risks and uncertainties directly or indirectly pertaining to our Group’s businesses. The followings are the key risks and uncertainties identified by our Group. There may be other risks and uncertainties in addition to those shown below which are not known to our Group or which may not be material now but could turn out to be material in the future:

i. Foreign exchange rates risk

The Group’s assets, borrowings and major transactions are mainly denominated in Renminbi. The Group mainly settles business expenses and receives operating income in mainland China in Renminbi. It has not used any financial instruments to hedge against bank borrowings in Renminbi, which are used mainly to meet capital requirements of its business in China. The Company mainly remits money to PRC for acquisition of projects or capital injection to establish investment companies with HK dollars. The exposure to foreign exchange risk is minimal and will continue to closely monitor the exposure and take any actions when appropriate.

ii. Equity price risk

The Group is exposed to equity price risk through its investments in listed equity securities and investments in funds. The investment portfolio is frequently reviewed and monitored by the Board to ensure prompt action taken and the loss arising from the changes in the market values is capped within an acceptable range.

iii. Liquidity risk

Liquidity risk is the potential that our Group will be unable to meet its obligations when they fall due because of an inability to obtain adequate funding or liquidate assets. In managing liquidity risk, our Group monitors cash flows and maintains an adequate level of cash and cash equivalent to ensure the ability to finance the Group’s operations and reduce the effects of fluctuation in cash flows.

iv. Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Responsibility for managing operational risks basically rests with every function at divisional and departmental levels. Key functions in our Group are guided by their standard operating procedures, limits of authority and reporting framework. Our management will identify and assess key operational exposures regularly so that appropriate risk response can be taken.

v. Investment risk

Investment risk can be defined as the likelihood of occurrence of losses relative to the expected return on any particular investment. Key concern of investment framework will be balancing risk and return across different investments, and thus risk assessment is a core aspect of the investment decision process. Proper authorisation system has been set up and detailed analysis will be made before approving investments. Regular updates on the progress of the investments of our Group would be submitted to the Board.

vi. Manpower and retention risk

Our Group may face the risk of not being able to attract and retain key personnel and talents with appropriate and required skills, experience and competence which would meet the business objectives of our Group. Our Group will provide attractive remuneration package to suitable candidates and personnel.

vii. Regulatory risk

Our businesses success and operations could be impacted by the change of respective government laws and regulation in PRC. The Group pays close attention to the relevant regulatory and legislative developments of the markets it operates and actively monitors and consults with regulators of the markets on changes which could impact our business.

CAPITAL COMMITMENTS

As at 31 December 2015, the Group has the capital commitments contracted but not provided for acquisition of property, plant and equipment approximately HK\$110.55 million (2014: HK\$92.39 million) and properties under development in relation to development costs of existing projects of HK\$9.27 million (2014: HK\$26.65 million).

CONTINGENT LIABILITIES

During the year, the Company has issued a guarantee to a bank in respect of a bank borrowing made by a wholly owned subsidiary which expires on 26 September 2019. As at 31 December 2014, the maximum liability of the Company relating to the aforesaid guarantee issued is the outstanding amount of the bank borrowing of the wholly owned subsidiary of HK\$47.75 million (2014: HK\$15.13 million).

PLEDGE OF ASSETS

The Group's bank loans and other loans of HK\$123.31 million in total as at 31 December 2015 (2014: HK\$50.52 million) were secured by charges over:

- (i) property, plant and equipment in which their carrying amount was HK\$ nil (2014: HK\$0.75 million);
- (ii) contractual rights to receive revenue generated by certain of our subsidiaries; and
- (iii) properties under development with a carrying amount of approximately HK\$ nil (2014: HK\$146.08 million) have been pledged to secure a personal loan granted to Zhou Ping Hua, a non-controlling shareholder of a subsidiary of the Company.

PURCHASES, REDEMPTIONS OR SALES OF COMPANY'S LISTED SECURITIES

During the year ended 31 December 2015, the Company repurchased 1,792,000 shares of the Company on the Stock Exchange. The repurchased shares were cancelled. Details of the repurchased of shares by the Company are as follows:

| Month of repurchase | No. of shares repurchased | Highest price per share (HK\$) | Lowest price per share (HK\$) | Aggregate price paid (HK\$) |
|----------------------------|----------------------------------|---------------------------------------|--------------------------------------|------------------------------------|
| August 2015 | 1,792,000 | 1.50 | 1.49 | 2,684,954 |

Save as disclosed above, there were no purchases, redemptions or sales of the Company's listed securities by the Company or any of its subsidiaries during the year.

DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2015 (2014: Nil).

NO MATERIAL CHANGE

Save as disclosed above, during the year ended 31 December 2015, there has been no material change in the Group's financial position or business since the publication of the latest annual report of the Company for the year ended 31 December 2014.

CHANGE IN INFORMATION OF DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of Directors of the Company subsequent to the date of the 2014 Annual Report required to be disclosed were (i) the discretionary bonus was paid to executive Directors in respect of the year ended 31 December 2015, details of emoluments of the Directors of the Company will be shown in annual report; (ii) the updated biographic details of the Directors will be shown in the annual report; and (iii) Ms. Chu Yin Yin, Georgiana, an executive director of the Company, was appointed as an independent non-executive Director of each Excel Development (Holdings) Limited (Stock code: 1372) and Sino Golf Holdings Limited (Stock code: 361) with effective 20 July 2015 and 24 August 2015, respectively. The shares of these companies are listed on the Main Board of the Stock Exchange.

Save as disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

EMPLOYEES

As at 31 December 2015, excluding jointly controlled entities and associates, the Group had 1,128 (2014: 1,002) employees, of which 10 (2014: 10) are Hong Kong employees. During the year, total employee benefit expenses, including directors' emoluments and provident funds, was HK\$116.32 million (2014: HK\$119.30 million). The decrease was caused by lesser amount of

discretionary bonuses in 2015, offset by higher salary and benefits on the increasing headcount of several of our renewable energy projects which have commenced their operations in 2015. Employees were remunerated on the basis of their performance and experience. Remuneration packages include salary and a year-end discretionary bonus, which are determined with reference to the Group's operating results, market conditions and individual performance. Remuneration packages are normally reviewed as an annual basis by the Remuneration Committee. During the year, all of the Hong Kong employees have participated in the Mandatory Provident Fund Scheme, and a similar benefit scheme is offered to employees in Mainland China. In addition, the Group encourage employees' participation in continuing training programmes, seminars and e-learning through which their career, knowledge and technical skills can be enhanced with the development of individual potentials.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES AND CORPORATE GOVERNANCE CODE

The Group recognises 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. The Board believed that the Company has complied with the code provisions of Corporate Governance Code ("**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**") throughout the financial year ended 31 December 2015 except for the following deviations:

- Pursuant to the code provision of A.2.1 of the CG Code, the roles of the chairman and chief executive officer of the Company should be separate and should not be performed by the same individual. On 19 July 2012, Mr. Wang De Yin ("**Mr. Wang**"), currently is the Chairman of the Company, was appointed as a Chief Executive Officer of the Company ("**CEO**"). The Board has evaluated the current situation of the Group and taken into account of the experience and past performance of Mr. Wang, the Board was of the opinion that it was appropriate and in the best interest of the Company at the present stage for vesting the roles of the Chairman and the CEO of the Company in the same person as it helps to facilitates the execution of the Group's business strategies and maximises the effectiveness of its operation. The Board will nevertheless review this structure from time to time and will consider the segregation of the two roles at the appropriate time.
- Pursuant to the code provision of A.4.1 of the CG Code, non-executive directors should be appointed for a specific term, subject to re-election while all directors should be subject to retirement by rotation at least once every three years. All independent non-executive directors of the Company ("**INEDs**") were not appointed for a specific term but they are subject to retirement by rotation and re-election at annual general meetings of the Company in line with the Company's Article of Association.
- Pursuant to code provision A.6.7 of the CG Code, the INEDs and other non-executive Directors should attend general meetings. At the AGM held on 4 June 2015 ("**2015 AGM**"), Mr. Li Jian Jun ("**Mr. Li**") was unable to join 2015 AGM due to his business engagement in China. Mr. Li is an INED of the Company. Except for him, all INEDs of the Company had attended the 2015 AGM to communicate with and developed a balanced understanding of the views of shareholders.

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 CG Code.

CHAIRMAN STATEMENT

The year 2015 was an extraordinary year for the Group. In the context of international economic downturn, we continued to grow and achieve stable increase in operating revenues with our pioneering and innovative spirit.

Business Review

I. The water supply business reached a new level.

The Group's water supply business reinforced management and actively coordinated resources and relationships to lay a solid foundation for sustainable development of the projects. Among them, Yingtian Water completed its building, developed the tertiary industry and innovated the investment mode, with the profit ranking first among companies of the Group. Thanks to its standardized management, Linyi Fenghuang Water Supply Co., Ltd broke away from business distress and stepped into a virtuous circle by attaining significant growth in both annual revenues and profits. The water rate of Yichun Water was low, and the Company actively expanded the water market while waiting for a price adjustment by the government. Its project revenue was substantially increased and its year-on-year growth rate of annual profit ranked first among companies of the Group. Other water supply companies also grew stably with a year-on-year growth of profit compared with last year and were getting better.

II. The exploitation and sale of renewable energy business attained rapid development.

In 2015, we successfully signed the sale and purchase agreements and co-operation agreements acquiring 8 projects which are located in various provincial cities including Shaanxi, Guangxi, Sichuan, Hunan, Chongqing, Hainan and Guangdong. Currently, there are 16 projects distributed in 13 cities of 7 provinces and 1 municipality, including 4 biogas purification projects, 11 biogas power generation projects, and 1 garbage sorting projects. The annual designed household waste processing capacity will reach approximately 9.15 million tonne. A "one-stop" large-scale industrial chain covering landfill garbage collection, landfill gas purification CNG, and garbage sorting was formed. By virtue of our scientific operation and improved management, the exploitation and sale of renewable energy business is expected to bring greater profits to the Group in 2016.

III. The sewage treatment business maintained stable growth.

Currently, three companies under the Group are engaged in the sewage treatment business, namely, Yichun Fangke Sewage Treatment Company Limited* (宜春市方科污水處理有限公司), Gaoming Huaxin and Jining City Haiyuan Water Treatment Company Limited* (濟寧市海源水務有限公司). Thanks to our hard work, these three companies have continuously contributed profit to the Group in 2015.

IV. The information system was modernized, specialized training was conducted for internal key management personnel, and internal management was greatly improved.

The deployment of a new financial system further enhanced the information-based financial works. The unified financial system of the Group laid a solid foundation for more efficient and effective financial management in the future.

The deployment of the Group's multifunctional information system embodies a big leap of the information-based system. It can provide various functions such as multi-site video conference, real-time production data collection for various companies and video call on the project scene, making works more efficient.

- V. We attracted more attention to media reports and were reported by several well-known media. We participated in many environmental protection forums and exhibitions home and abroad and won a number of professional awards, including the "International Carbon-Value Award", "Company with Most Investment Value", "Energy Conservation and Environment Protection Award", and "Leading Company for Solid Waste Subdivision". As a result, the Group's visibility was improved and a professional image was created while being widely recognized by the industry.

In order to maintain the sustainable development of the Group and to address capital demands during the development, the Group took the initiative to develop a variety of financing channels, enhanced its capital strength, and actively prepared foreign currency for exchange rate depreciation of the RMB. In 2015, the Group signed financing agreements with multiple domestic and foreign commercial banks to provide sufficient funds for projects. As at December 31, 2015, the Group had HK\$476.87 million cash on hand. The liabilities level and financial situation were sound. Businesses were developing vigorously and the competitive advantage was further enhanced.

Prospect and Plans

The year 2016 is the first year of the "13th Five-Year Plan". Although there will be many difficulties, we will also have more opportunities. The Group has made precise deployment, formulated key development strategies and detailed plans, and combined effective use of funds and internal management of resources in accordance with the "Four Key Points" to make the Group grow more robustly.

- I. Endeavor to make water supply companies stronger. In the next three years, we will continuously improve the water treatment technology and provide quality services. At the same time, we will continue to acquire high-quality water resource projects.

With stable development and outstanding performance, the water supply business became the main source of profits to the Group in 2015. We have been working hard to keep urban residents healthy by improving water quality and providing quality services. In 2015, the Ministry of Construction of China promulgated a new "Water Quality Standards for Urban Water Supply" which posed higher requirements on quality of urban drinking water. The introduction and implementation of the new Standards further boosted technological progresses in China's urban water supply industry. In the Development Plan for the Urban Water Supply Industry for 2010 and Development Goals for 2020, the Ministry of Construction of China specifically requires local government authorities and water supply companies to strengthen protection of water supply sources, intensify pollution control efforts, improve the treatment processes, and accelerate water supply network transformation to meet requirements of the new Standards requirement as soon as possible. The national encouragement policies bring us a broader space for development and a promising future.

Since the reform and opening up, China's economy developed rapidly. However, terrible water pollution was resulted. Currently, China has become one of the countries with large quantity and the highest increase rate in wastewater effluent. Due to limited capacity in sewage treatment, more than half of the sewage has been directly or indirectly discharged to rivers and lakes without prior treatment. This has caused serious pollution to water resources. According to investigation and statistics of the Environmental Protection Administration (the Ministry of Environmental Protection), the Ministry of Water Resources, and the Ministry of Housing and Urban-Rural Development, over 80% of the cities are polluted to varying degrees and nearly 70% of the water sources fail to meet the national standard. Such data further strengthens our resolution and confidence in making a contribution to governance of water pollution and developing the sewage business in China. In addition, the "Notice on Formulating and Adjusting the Sewage Treatment Fee Standard" implemented by the state specifies that full play should be given to the price as leverage and the sewage treatment fee standard should be reasonably formulated and adjusted to cause more social capital to actively participate in the construction and operation of sewage treatment facilities by means of franchise, government procurement of services and equity cooperation, so as to improve the sewage treatment capacity and operational efficiency. It fully proves that the Government encourages social capital and agrees with reasonable adjustment of the sewage treatment price standard. This will bring us opportunities to develop the sewage treatment business and enable us to move faster to make our dream "Making the World Endowed with Blue Sky, Green Earth, and Clear Water" come true.

In the next three years, we will move more rapidly to develop merged and new projects while continue to acquire quality water resource projects to provide urban residents with quality water and services. Executives of the Group will also make in-depth understanding of the problems and difficulties in the development of local companies and provide them with innovative solutions to ensure sustainable and healthy development of the companies.

II. Support the new energy sector to step into a new stage and hit historical highs in net profit.

The Group's solid waste business is rapidly developing. The investments of New China Water (Nanjing) are primarily focused on comprehensive utilization of urban household garbage. Currently, we are at the end of the "12th Five-Year Plan" and the beginning of the "13th Five-Year Plan" when new environmental protection policies are frequently introduced. The plan for the environmental protection industry is expected to be issued soon along with a number of investment opportunities. In view of the environmental industry market, China's solid waste treatment industry is still in an early stage of development and the solid waste treatment investment only accounts for less than 15% of the overall investments in the environmental protection industry. However, the solid waste treatment industry in developed countries is the largest sub-industry of the environmental protection field, accounting for over 50% of investments and output value in the field. Therefore, the solid waste industry will be promising in both existing demand and incremental demand. We will continue to acquire quality and sustainable projects home and abroad while boosting the existing domestic projects to a new level. We will further develop new energy businesses (including solar photovoltaic and wind power generation business) and focus on the "industrialization" of the environmental protection industry to achieve the business objective of highest net profit ever.

With policy support from the local government, New China Water (Nanjing) headquarters in Nanjing will construct the China Water New Energy Building to enhance the Group's professional image in new energy. The project company is located in Nanjing Kylin Technology Innovation Park, a convenient place close to the highway and high-speed rail station. The Kylin Technology Innovation Park is the only national smart city pilot park in Nanjing, the province's first provincial-level technology service demonstration area, the province's first batch of provincial-level triple play pilot park, and the only robot R&D base for CAST's HOME Program. The China Water New Energy Building will be constructed into a commercial complex giving priority to the academician workstation, training base of the renewable resources institute and cloud-based service platform and integrating the business and venture center, multimedia conference center, business hotel, sports center, and environmental protection and energy conservation building. When sufficient space for the Group to conduct new energy R&D is provided, the new energy real estate and property management business will be vigorously promoted.

- III. Coordinate the relationship between the Group and its subsidiaries, lay emphasis on cultivation of basic quality and ability of talents, and enable smooth communication and resource sharing at the Group level.

Development of the Group brings more and more subsidiaries. Therefore, it is very important to build a personnel training and internal control system to achieve more efficient and effective management. The Group-level smooth communication will enhance the overall risk control ability to a large extent. We will standardize and institutionalize management and business processes and leverage internal auditing and supervision to achieve the best balance among risk, cost and value during operation so as to provide basis and means for healthy and stable development of companies. We will provide a succession of professional training and enhancement for companies facing problems of inadequate internal management and defective financial system. We will strictly forbid violation of company regulations and laws to build a scientific and effective restriction and supervision system.

- IV. Enhance internal management of companies, intensify employees' awareness of performance, and improve the incentive mechanism.

We will promote performance appraisal as a key form of value management of the Group. This is required when we need to adapt to market competition, achieve the Group's strategy, and improve the incentive mechanism. We will make the subsidiaries, departments and employees rationally define their objectives and tasks by means of signing letters of responsibility. In this way, they will take measures more actively and strive to fulfill the tasks arranged by the Group. We will provide definite rewards and punishments to further stimulate the enthusiasm of all employees. We will carry out all rewards to make staff at all levels feel our recognition and gratitude for their hard work and set a style of doing practical things for the Group.

Looking to the future, the Group will plan to develop Swan (Huizhou) core businesses into a modern real estate investment business mainly focusing on the science and technology real estate development and construction and integrating property management, investment consulting and project planning. Huizhou is located in the Pearl River Delta economic zone. It faces Daya Bay in South China Sea and is close to Shenzhen and Hong Kong. The proposed project will be located in Huizhou Huicheng High-tech Industrial Park, with a total construction area of 74,730 square meters. The preliminary construction model for the aforesaid project will contain the Innovation and Technology Building, administrative service center, photovoltaic R&D center, comprehensive R&D test building, talent apartment, and No. 1 and No. 2 R&D office buildings. The comprehensive supporting facilities could fully meet the platform construction needs of SME incubators and effectively improve the organic composition of capital to enable companies to yield returns more rapidly with less investment. With the driving force from ongoing real estate development policies in China, this industry will recover in the coming years. The innovative model of “science and technology real estate” will be conducive to introduction of high-tech enterprises and talents. Its potential of growth is large as it is strongly recognized and supported by the local government. In addition, the urgent demand on environmental treatment, strong support from national policies, and market-oriented development will make China usher in another development climax of the environmental protection industry amidst rapid development of economic globalization and environmental globalization. We will integrate all available resources and accelerate acquisitions of quality projects and investment construction while strengthening management on existing projects companies to achieve profit goals so as to create a “professional, industrial and large-scale” image for the Group. We believe that in the near future, the Group’s operating performance will embark on a new level.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the full set of Model Code set out in Appendix 10 of the Listing Rules as the code of the conduct for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”). The prohibitions on securities dealing and disclosure requirements in the Model Code apply to specified individuals including the Group’s senior management and also persons who are privy to price sensitive information of the Group. Having made specific enquiry of all directors, the Board confirmed that directors of the Company had complied with the Model Code regarding directors’ securities transactions during the year and up to the date of announcement.

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 announcement, the Company has maintained the prescribed public float of not less than 25% of the Company’s issued shares as required under the Listing Rules for the year ended 31 December 2015.

AUDIT COMMITTEE

The Audit Committee of the Company reviewed the Annual Results including the accounting principles and practices adopted by the Group, and discussed auditing, internal control and financial reporting matters as well as the audited financial statements for the year ended 31 December 2015.

SCOPE OF WORK OF CROWE HORWATH (HK) CPA LIMITED

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2015 have been agreed by the Company's auditor, Crowe Horwath (HK) CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Crowe Horwath (HK) CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Crowe Horwath (HK) CPA Limited on the preliminary announcement.

ANNUAL GENERAL MEETING

A notice convening the annual general meeting will be published on the websites of the Stock Exchange and the Company and dispatched to the shareholders of the Company in the manner as required by the Listing Rules in due course.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This results announcement is published on the Stock Exchange's website (www.hkex.com.hk) and the Company's website (www.chinawaterind.com). The annual report will be dispatched to the shareholders and will be available on websites of the Stock Exchange and the Company in due course.

ACKNOWLEDGMENTS

Finally, I would like to take this opportunity to extend heartfelt thanks to all board members and employees for their efforts made in the past year. I am also grateful to all shareholders and business partners for their trust in and support provided to the Group. In the new year when opportunities and challenges coexist, the Board will continue to pursue the maximum return for the shareholders.

By order of the Board
China Water Industry Group Limited
Wang De Yin
Chairman and Chief Executive Officer

Hong Kong, 29 March 2016

As at the date of this announcement, the Board comprises Mr. Wang De Yin, Mr. Lin Yue Hui, Mr. Liu Feng, Ms. Chu Yin Yin, Georgiana and Ms. Deng Xiao Ting, all being executive Directors, and Mr. Guo Chao Tian, Mr. Li Jian Jun and Mr. Wong Siu Keung, Joe, all being independent non-executive Directors.

* *For identification purpose only*