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 2016

FINANCIAL HIGHLIGHTS

	Year ended 31 December		
	2016	2015	Change
	HK$'000	*HK$'000*	*%*
Financial Results			
Revenue	**550,646**	528,586	4.17%
Gross profit	**223,982**	185,020	21.06%
Profit/(Loss) for the year	**84,902**	(70,598)	220.26%
Profit/(Loss) attributable to owners of the Company	**31,263**	(97,497)	132.07%
Earnings/(loss) per share (HK cents)			
– Basic and diluted	**1.96**	(6.56)	129.88%

	2016	2015	Change
	HK$'000	*HK$'000*	*%*
Financial Position			
Total assets	**2,752,832**	2,621,663	5.00%
Total liabilities	**1,114,625**	969,104	15.02%
Current assets	**1,205,620**	1,231,659	(2.11%)
Current liabilities	**860,393**	713,794	20.54%
Current ratio	**1.40 times**	1.73 times	(19.08%)
Cash and cash equivalents	**459,179**	476,873	(3.71%)
Gearing ratio	**40.49%**	36.97%	9.52%
Total net asset value	**1,638,207**	1,652,559	(0.87%)
Equity attributable to the Company's shareholders	**1,263,852**	1,310,827	(3.58%)
Equity attributable to the Company's shareholders per share (HK$)	**0.79**	0.82	(3.66%)

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 2016 together with comparative figures for the year ended 31 December 2015 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	**2016**	2015
		HK$'000	*HK$'000*
Revenue	*3*	**550,646**	528,586
Cost of sales		**(326,664)**	(343,566)
Gross profit		**223,982**	185,020
Other operating income and expenses		**76,566**	52,273
Reversal of impairment loss recognised on an associate		**–**	33,540
Reversal of impairment loss recognised on trade and other receivables		**70**	359
Selling and distribution expenses		**(29,918)**	(30,931)
Administrative expenses		**(169,819)**	(140,306)
Finance costs	*5*	**(24,083)**	(8,842)
Change in fair value of investment property		**1,613**	410
Change in fair value of derivative financial instruments		**–**	46
Net gain/(loss) on financial assets at fair value through profit or loss		**22,304**	(90,631)
Net gain on disposal of available-for-sale investments		**35,699**	12,716
Impairment loss recognised on:			
– property, plant and equipment		**–**	(1,622)
– concession intangible assets		**–**	(6,384)
– goodwill		**–**	(4,066)
– other intangible assets		**–**	(874)
– available-for-sale investments		**(9,704)**	(58,537)
– trade and other receivables		**(481)**	(161)
Share (loss)/profit of associates		**(1,412)**	7,332
Profit/(Loss) before taxation		**124,817**	(50,658)
Income tax	*6*	**(39,915)**	(19,940)
Profit/(Loss) for the year	*7*	**84,902**	(70,598)
Attributable to:			
Owners of the Company		**31,263**	(97,497)
Non-controlling interests		**53,639**	26,899
		84,902	(70,598)
Earnings/(loss) per share (HK cents):	*9*		
Basic		**1.96**	(6.56)
Diluted		**1.96**	(6.56)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 HK$'000	2015 HK$'000
Profit/(loss) for the year		**84,902**	(70,598)
Other comprehensive loss for the year			
Items that may be reclassified subsequently to profit or loss:			
Exchanges difference on translation of financial statements of foreign operations			
Exchange difference arising during the year		**(86,865)**	(86,509)
		(86,865)	(86,509)
Available-for-sale investments:			
Net loss arising on revaluation of available-for-sale investments during the year		**(13,400)**	(22,777)
Reclassification upon impairment		**9,704**	58,537
Reclassification adjustments relating to available-for-sale investments disposed of during the year		**(10,455)**	(12,716)
		(14,151)	23,044
Share of other comprehensive loss of associates		**(1,714)**	(5,775)
Items that will not be reclassified subsequently to profit or loss:			
Gain on revaluation of investment property upon transfer from property, plant and equipment		**4,785**	–
Deferred tax liability arising on gain on revaluation of properties		**(1,196)**	–
		3,589	–
Other comprehensive loss for the year, net of income tax		**(99,141)**	(69,240)
Total comprehensive loss for the year		**(14,239)**	(139,838)
Attributable to:			
Owners of the Company		**(46,975)**	(125,770)
Non-controlling interests		**32,736**	(14,068)
		(14,239)	(139,838)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2016

	Note	2016 HK$'000	2015 HK$'000
Non-current assets			
Property, plant and equipment		**454,530**	277,405
Deposits paid for acquisition of property, plant and equipment		**30,583**	60,609
Deposits paid for acquisition of subsidiaries		**29,769**	29,843
Prepaid lease payments		**104,030**	22,189
Operating concessions		**483,794**	503,825
Receivables under service concession arrangements		**31,493**	39,149
Investment property		**32,510**	–
Other non-current assets		**19,369**	20,711
Other intangible assets		**189,821**	173,093
Available-for-sale investments		**90,437**	181,424
Interests in associates		**71,534**	74,660
Deferred tax assets		**9,342**	7,096
		1,547,212	1,390,004
Current assets			
Inventories		**184,589**	204,383
Receivables under service concession arrangements		**5,122**	6,109
Financial assets at fair value through profit or loss		**232,808**	220,061
Trade and other receivables	*10*	**286,237**	305,606
Prepaid lease payments		**1,645**	1,053
Amounts due from customers for contract works		**4,982**	13,463
Tax recoverable		**–**	4,111
Cash held by financial institutions		**341**	923
Bank balances and cash		**489,896**	475,950
		1,205,620	1,231,659
Current liabilities			
Overdraft held at financial institutions		**31,058**	–
Trade and other payables	*11*	**256,255**	306,042
Amounts due to customers for contract works		**155,781**	112,180
Bank borrowings		**48,729**	29,007
Other loans		**295,265**	203,982
Obligations under finance leases		**10,444**	–
Amounts due to non-controlling shareholders of subsidiaries		**32,808**	27,903
Loans from associates		**2,927**	3,130
Tax payables		**27,126**	31,550
		860,393	713,794
Net current assets		**345,227**	517,865
Total assets less current liabilities		**1,892,439**	1,907,869

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*
AT 31 DECEMBER 2016

	Note	2016 HK$'000	2015 HK$'000
Capital and reserves			
Share capital		**798,270**	798,270
Share premium and reserves		**465,582**	512,557
Equity attributable to owners of the Company		**1,263,852**	1,310,827
Non-controlling interests		**374,355**	341,732
TOTAL EQUITY		**1,638,207**	1,652,559
Non-current liabilities			
Bank borrowings		**74,245**	103,852
Other loans		**64,947**	79,627
Obligations under finance leases		**20,320**	–
Government grants		**29,550**	17,256
Deferred tax liabilities		**65,170**	54,575
		254,232	255,310
		1,892,439	1,907,869

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

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 HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 Investment Entities: Applying the Consolidation Exception

The Group has applied the amendments to HKFRS 10, HKFRS 12 and HKAS 28 Investment Entities: Applying the Consolidation Exception for the first time in the current year. The amendments clarify that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with HKFRS 10. The amendments also clarify that the requirement for an investment entity to consolidate a subsidiary, whose main purpose is to provide services and activities that are related to the investment activities of the investment entity parent, applies only to subsidiaries that are not investment entities themselves.

The application of these amendments has had no impact on the Group's consolidated financial statements as the Group is not an investment entity and does not have any holding company, subsidiary, associate or joint venture that qualifies as an investment entity.

2. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES *(Continued)*

(a) Application of new and revised Hong Kong Financial Reporting Standards ("HKFRSs") *(Continued)*

Amendments to HKFRS 11 Accounting for Acquisitions of Interests in Joint Operations

The Group has applied the amendments to HKFRS 11 Accounting for Acquisitions of Interests in Joint Operations for the first time in the current year. The amendments to HKFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in HKFRS 3 Business Combinations. Specifically, the amendments state that the relevant principles on accounting for business combinations in HKFRS 3 and other standards (for example, HKAS 12 Income Taxes regarding the recognition of deferred taxes at the time of acquisition and HKAS 36 Impairment of Assets regarding impairment testing of a cash-generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

A joint operator is also required to disclose the relevant information required by HKFRS 3 and other standards for business combinations.

The application of these amendments has had no impact on the Group's consolidated financial statements as the Group did not have any such transactions in the current year.

Amendments to HKAS 1 Disclosure Initiative

The Group has applied the amendments to HKAS 1 Disclosure Initiative for the first time in the current year. The amendments to HKAS 1 clarify that an entity need not provide a specific disclosure required by an HKFRS if the information resulting from that disclosure is not material, and give guidance on the bases of aggregating and disaggregating information. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in HKFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the entity's financial position and financial performance.

In addition, the amendments clarify that an entity's share of the other comprehensive income of associates and joint ventures accounted for using the equity method should be presented separately from those arising from the Group, and should be separated into the share of items that, in accordance with other HKFRSs: (i) will not be reclassified subsequently to profit or loss; and (ii) will be reclassified subsequently to profit or loss when specific conditions are met.

As regards the structure of the financial statements, the amendments provide examples of systematic ordering or grouping of the notes.

The application of these amendments has not resulted in any impact on the financial performance or financial position of the Group.

Amendments to HKAS 16 and HKAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The Group has applied the amendments to HKAS 16 and HKAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation for the first time in the current year. The amendments to HKAS 16 Property, Plant and Equipment prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to HKAS 38 Intangible Assets introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

a) when the intangible asset is expressed as a measure of revenue; or

b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

In addition, the amendments also clarify that in choosing an appropriate amortisation method an entity could determine the predominant limiting factor that is inherent in the intangible asset.

2. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES *(Continued)*

(a) Application of new and revised Hong Kong Financial Reporting Standards ("HKFRSs") *(Continued)*

Amendments to HKAS 16 and HKAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation *(Continued)*

As the Group already uses the straight-line method for depreciation and amortisation for its property, plant and equipment, and intangible assets respectively, the application of these amendments has had no impact on the Group's consolidated financial statements.

Amendments to HKAS 16 and HKAS 41 Agriculture: Bearer Plants

The Group has applied the amendments to HKAS 16 and HKAS 41 Agriculture: Bearer Plants for the first time in the current year. The amendments to HKAS 16 Property, Plant and Equipment and HKAS 41 Agriculture define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with HKAS 16, instead of HKAS 41. The produce growing on bearer plants continues to be accounted for in accordance with HKAS 41.

The application of these amendments has had no impact on the Group's consolidated financial statements as the Group is not engaged in agricultural activities.

Annual Improvements to HKFRSs 2012-2014 Cycle

The Group has applied the Annual Improvements to HKFRSs 2012-2014 Cycle for the first time in the current year which include a number of amendments to various HKFRSs as summarised below.

The amendments to HKFRS 5 clarify when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa), such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in HKFRS 5 regarding the change of sale plan do not apply. The amendments also clarifies the guidance for when held-for-distribution accounting is discontinued.

The amendments to HKFRS 7 provide additional guidance to clarify whether a servicing contract constitutes continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets.

The amendments to HKAS 19 clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The assessment of the depth of a market for high quality corporate bonds should be at the currency level (i.e. the same currency as the benefits are to be paid). For currencies for which there is no deep market in such high quality corporate bonds, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead.

The application of these amendments has had no effect on the Group's consolidated financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3. REVENUE

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

	2016	2015
	HK$'000	*HK$'000*
Water supply services	**112,043**	119,061
Sewage treatment services	**44,417**	48,381
Water supply related installation and construction income	**241,813**	235,875
Water supply and sewage treatment infrastructure construction income	**31,166**	58,690
Sale of electricity	**70,690**	29,984
Sale of compressed natural gas	**39,428**	27,529
Service income from collection of landfill gas	**11,089**	9,066
	550,646	528,586

Sales of electricity to provincial power grid companies included tariff adjustment received and receivable from the relevant government authorities.

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 2016

	Provision of water supply, sewage treatment and construction services *HK$'000*	Exploitation and sale of renewable energy *HK$'000*	Total *HK$'000*
Reportable segment revenue	**429,439**	**121,207**	**550,646**
Reportable segment profit	**126,705**	**16,777**	**143,482**
Unallocated corporate expenses			**(49,053)**
Interest income			**478**
Interest on overdraft held by financial institutions			**(1,139)**
Interest on fixed coupon bonds			**(17,250)**
Net gain on financial assets at fair value through profit or loss			**22,304**
Net gain on disposal of available-for-sale investments			**35,699**
Impairment loss recognised on available-for-sale investment			**(9,704)**
Profit before taxation			**124,817**

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*	Total *HK$'000*
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)

4. SEGMENT REPORTING *(Continued)*

Other segment information

For the year ended 31 December 2016

	Provision of water supply, sewage treatment and construction *HK$'000*	Exploration and sale of renewable energy *HK$'000*	Corporate *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Interest income	**19,250**	**145**	**478**	**–**	**19,873**
Interest expenses	**(2,821)**	**(2,873)**	**(18,389)**	**–**	**(24,083)**
Share of losses of associates	**(1,412)**	**–**	**–**	**–**	**(1,412)**
Depreciation of property, plant and equipment	**(7,172)**	**(23,342)**	**(2,153)**	**–**	**(32,667)**
Amortisation of:					
– Prepaid lease payments	**(973)**	**–**	**–**	**–**	**(973)**
– Concession intangible assets	**(23,564)**	**–**	**–**	**–**	**(23,564)**
– Other intangible assets	**–**	**(17,874)**	**–**	**–**	**(17,874)**
Loss on disposal of property, plant and equipment and prepaid lease payments	**(152)**	**–**	**–**	**–**	**(152)**
Net gain on disposal of available-for-sale investments	**–**	**–**	**35,699**	**–**	**35,699**
Impairment loss recognised on:					
– Trade and other receivables	**(481)**	**–**	**–**	**–**	**(481)**
– Available-for-sale investments	**–**	**–**	**(9,704)**	**–**	**(9,704)**
Reversal of impairment loss recognised on trade and other receivables	**70**	**–**	**–**	**–**	**70**
Reportable segment assets	**1,038,229**	**889,804**	**653,486**	**171,313**	**2,752,832**
Additions to non-current assets	**36,003**	**210,818**	**80,475**	**–**	**327,296**
Reportable segment liabilities	**(344,860)**	**(305,124)**	**(336,511)**	**(128,130)**	**(1,114,625)**

4. **SEGMENT REPORTING** *(Continued)*

Other segment information *(Continued)*

For the year ended 31 December 2015

	Provision of water supply, sewage treatment and construction *HK$'000*	Exploration and sale of renewable energy *HK$'000*	Corporate *HK$'000*	Unallocated *HK$'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	(19,868)	–	–	–	(19,868)
– 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
Reportable segment assets	1,097,787	613,432	438,770	471,674	2,621,663
Additions to non-current assets	136,472	178,036	1,381	–	315,889
Reportable segment liabilities	(463,085)	(173,298)	(218,693)	(114,028)	(969,104)

Segment assets include all tangible, intangible assets and current assets with the exception of available-for-sale investments, financial assets at fair value through profit or loss and other unallocated corporate assets. Segment liabilities include all current liabilities and non-current liabilities with the exception of overdraft held by financial institutions and other unallocated corporate liabilities.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortization of assets attributable to those segments.

Segment revenue reported above represents revenue generated from external customers. There were no inter-segments sales in the current year (2015: 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, interest on overdraft held by financial institutions, 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 2016 and 2015, the Group does not have any single significant customer with the transaction value of 10% or more of the revenue.

5. FINANCE COSTS

	2016	2015
	HK$'000	*HK$'000*
Interest on:		
– convertible bonds	**–**	1,027
– bank borrowings	**5,354**	6,921
– other loans	**22,717**	15,619
– overdraft held by financial institutions	**1,139**	–
Finance charges on obligations under finance leases	**742**	–
Total borrowing cost	**29,952**	23,567
Less: interest capitalised included in construction in progress	**(5,869)**	(14,725)
	24,083	8,842

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$5,869,000 (2015: HK$14,725,000) at the capitalisation rate of 6.58% (2015: 6.98%) per annum.

6. INCOME TAX EXPENSE

	2016	2015
	HK$'000	*HK$'000*
Current tax – Hong Kong Profits Tax		
– Provision for the year	**–**	–
– Over provision in respect of prior years	**–**	(409)
Current tax – PRC Enterprise Income Tax ("**EIT**")		
– Provision for the year	**38,935**	36,735
– Over provision in respect of prior years	**(1,390)**	(2,081)
– PRC EIT on disposal of subsidiaries	**–**	–
Deferred tax	**2,370**	(14,305)
	39,915	19,940

Hong Kong Profits Tax has been provided at the rate of 16.5% on the estimated assessable profit for 2016 (2015: 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 ("**Gaoming Huaxin**"), Nanjing Feng Shang New Technology Limited Liability Company ("**Nanjing Feng Shang**"), Hunan Huiming Environmental Technology Limited ("**Huiming Technology**"), Changsha Huiming Recycling Resources Technology Limited ("**Changsha Huiming**"), Shenzhen City New China Water Environmental Technology Limited* ("**Shenzhen New China Water**") (formerly know as Shenzhen City Greenspring Recycling Resources Technology Limited), Qingyuan City Greenspring Environmental Technology Limited ("**Qingyuan City Greenspring**"), and Wuzhou City China Water New Renewable Resources Company Limited ("**Wuzhou New China Water**") 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, Huiming Technology, Changsha Huiming, Shenzhen New China Water, Qingyuan City Greenspring, and Wuzhou New China Water were 2011, 2012, 2012, 2015, 2016, 2016 and 2016 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.

6. INCOME TAX EXPENSE *(Continued)*

- 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.

- Changsha Huiming is exempted from PRC income tax from 1 January 2015 to 31 December 2017 and are entitled to a 50% exemption of income tax from 1 January 2018 to 31 December 2020.

- Shenzhen New China Water, Qingyuan City Greenspring and Wuzhou New China Water are exempted from PRC income tax from 1 January 2016 to 31 December 2018 and are entitled to a 50% exemption of income tax from 1 January 2019 to 31 December 2021.

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 1 January 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 profit/(loss) before tax per the consolidated statement of profit or loss as follows:

	2016	2015
	HK$'000	*HK$'000*
Profit/(loss) before taxation	**124,817**	(50,658)
Tax at the domestic income tax rate of 25% (2015: 25%)	**31,205**	(12,665)
Tax effect of share of results of associates	**(117)**	(1,833)
Tax effect of expenses not deductible for tax purposes	**18,530**	15,207
Tax effect of income not taxable for tax purposes	**(21,293)**	(4,131)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**763**	15,532
Tax effect of tax losses and deductible temporary differences not recognised	**8,737**	8,397
Deferred tax liabilities arising on undistributed profit of PRC subsidiaries	**3,480**	1,923
Over provision in respect of prior years	**(1,390)**	(2,490)
	39,915	19,940

7. PROFIT/(LOSS) FOR THE YEAR

Profit/(loss) for the year has been arrived at after charging:

	2016	2015
	HK$'000	*HK$'000*
Staff costs excluding directors' and chief executive's emoluments		
– Salaries, wages and other benefits	**126,942**	94,464
– Retirement benefits scheme contributions	**14,880**	13,628
Total staff costs	**141,822**	108,092
Amortisation of:		
– Prepaid lease payments	**973**	1,443
– Concession intangible assets (included in cost of sales)	**23,564**	19,868
– Other intangible assets	**17,874**	10,498
Depreciation of property, plant and equipment	**32,667**	14,691
Loss/(gain) on disposal of property, plant and equipment and prepaid lease payment	**152**	(225)
Auditors' remuneration – audit services	**2,341**	1,450
Minimum lease payments under operating leases	**6,221**	6,710
Cost of inventories sold	**128,826**	115,567
Gross rental income from investment properties less direct outgoings of $117,000 (2015: $115,000)	**1,341**	1,255
Loss on sales of properties, net	**244**	–

8. DIVIDENDS

No dividend was paid or proposed during the year ended 31 December 2016, nor has any dividend been proposed since the end of the reporting period (2015: nil).

9. EARNINGS/(LOSS) PER SHARE

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

	2016	2015
	HK$'000	*HK$'000*
Profit/(loss) attributable to the owners of the Company, used in the basic and diluted earnings/(loss) per share	**31,263**	(97,497)
	No. of shares '000	*No. of shares '000*
Weighted average number of ordinary shares – basic and diluted	**1,596,540**	1,486,921
Earnings/(loss)per share (HK cents):		
Basic	**1.96**	(6.56)
Diluted	**1.96**	(6.56)

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 since their exercise would result in decrease in loss per share for the year then ended.

For the year ended 31 December 2016, diluted earnings per share equals basic earnings per share as there was no dilutive potential share.

10. TRADE AND OTHER RECEIVABLES

	2016	2015
	HK$'000	*HK$'000*
Trade receivables	**63,856**	38,010
Less: Allowance for doubtful debts	**(2,347)**	(2,331)
	61,509	35,679
Other receivables *(note a)*	**100,183**	83,197
Less: Allowance for doubtful debts	**(4,858)**	(10,466)
	95,325	72,731
Loan receivables *(note b)*	**58,394**	112,142
Less: Allowance for doubtful debts	**(54,844)**	(54,844)
	3,550	57,298
Deposits and prepayments *(note c)*	**125,853**	139,898
	286,237	305,606

(a) Other receivables represented advances to staff and unrelated parties, which were unsecured, interest-free and repayable on demand. Amount at 31 December 2016 mainly included (i) a receivable of HK$40.9 million (2015: HK$42.4 million) from the disposal of investments in unlisted US dollar based investment funds (classified as available-for-sale investments) (ii) a receivable of HK$Nil (2015: HK$14.0 million) from the disposal of investments in a property development company in China (classified as available-for-sale investments).

(b) Loan receivables

Apart from the loans to Top Vision of (HK$43.6 million) and other borrowers of (HK$11.2 million) as explained below, also included in loan receivables as at 31 December 2016 were loans to one (2015: two) unrelated parties of HK$3,550,000 (2015: HK$57,298,000), which bear fixed interest rate at approximately 36% per annum. Loan of HK$3,550,000 was unsecured. This party has 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 for purchase of materials for trading purposes. During the year 2016, the purchase was cancelled and the deposit was fully refunded.

Amount at 31 December 2016 included i) a payment of HK$15 million for the subscription of investment fund and HK$0.45 million for the expenses of the subscription. The subscription of fund was completed on 3 January 2017. ii) a deposit paid of HK$23 million (RMB21 million) for the acquisition of 80% equity interest of a subsidiary. The total consideration for the acquisition is RMB70 million (approximately HKD78 million). The acquisition was terminated in December 2016 and the deposit was refunded in March 2017. iii) a subsidiary of the Company entered into a co-operation agreement with independent third party to bid a government project of sewage treatment infrastructure construction. The deposit of HK$27 million (RMB24 million) was paid. At 20 December 2016, due to the delay of the government project, the subsidiary of the Company and the independent third party agreed to terminate the co-operation agreement, and the deposit was refunded on March 2017.

10. TRADE AND OTHER RECEIVABLES *(Continued)*

Trade receivables

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:

	2016	2015
	HK$'000	*HK$'000*
Within 90 days	**56,926**	33,164
91 to 180 days	**2,530**	401
181 to 365 days	**121**	–
Over 1 year	**1,932**	2,114
	61,509	35,679

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

	2016	2015
	HK$'000	*HK$'000*
Neither past due nor impaired	**59,456**	33,565
Past due but not impaired		
Within 90 days	**–**	–
91 to 180 days	**121**	–
181 to 365 days	**717**	1,508
Over 1 year	**1,215**	606
	61,509	35,679

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.

10. TRADE AND OTHER RECEIVABLES *(Continued)*

Trade receivables *(Continued)*

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

	2016	2015
	HK$'000	*HK$'000*
At 1 January	**2,331**	5,659
Impairment loss recognised	**198**	155
Reversal of impairment loss	**(27)**	(359)
Uncollectible amounts written off	**–**	(2,949)
Exchange realignment	**(155)**	(175)
At 31 December	**2,347**	2,331

Included in the impairment loss are individually impaired trade receivables with an aggregate balance of HK$2,347,000 (2015: HK$2,331,000) which are long outstanding.

Other receivables

Impairment losses in respect of other 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 other receivables directly. The movements in the allowance of doubtful debts on other receivables are as follows:

	2016	2015
	HK$'000	*HK$'000*
At 1 January	**10,466**	4,265
Acquisition of subsidiaries	**726**	–
Impairment loss recognised	**283**	6,367
Uncollectible amounts written off	**(6,450)**	(93)
Reversal of impairment loss	**(43)**	–
Exchange realignment	**(124)**	(73)
At 31 December	**4,858**	10,466

Included in the impairment loss are individually impaired other receivables with an aggregate balance of HK$4,858,000 (2015: HK$10,466,000) which are long outstanding. The management considered the recovery of certain other receivables HK$6,450,000 (2015: HK$93,000) is remote, and the amount considered irrecoverable and written off against other receivables. Other receivables of HK$95,325,000 (2015: HK$72,731,000) 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.

Loan receivables

Impairment losses in respect of loan 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 loan receivables directly.

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

	2016	2015
	HK$'000	*HK$'000*
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 (2015: 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, loan 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 2016, 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 will undertake 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 of 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. On 4 May 2015, the liquidators were appointed. Although Top Vision was in liquidation, 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.

At 31 December 2016 and 2015, the loan receivables from Top Vision of HK$43,598,000 were fully impaired.

At 31 December 2016 and 2015, the long outstanding loan receivables from three other borrowers totalled HK$11,246,000, were fully impaired.

11. TRADE AND OTHER PAYABLES

	2016	2015
	HK$'000	*HK$'000*
Trade payables	**30,979**	25,299
Receipt in advance	**30,099**	96,355
Construction payables	**71,163**	65,002
Interest payables	**11,139**	11,943
Consideration payable	**25,106**	3,033
Forward sales deposits received	**13,708**	22,505
Other tax payables	**7,508**	6,853
Accrued expenses	**16,099**	19,771
Guarantee deposits from a subcontractor	**11,164**	11,937
Sewage treatment fees received on behalf of certain government authorities	**12,373**	22,264
Other payables	**26,917**	21,080
	256,255	306,042

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

	2016	2015
	HK$'000	*HK$'000*
Within 30 days	**10,248**	10,226
31 to 90 days	**2,581**	4,654
91 to 180 days	**9,383**	1,198
181 to 365 days	**1,350**	2,065
Over 1 year	**7,417**	7,156
	30,979	25,299

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 2016 not provided for in the financial statements were as follows:

	2016	2015
	HK$'000	*HK$'000*
Contracted but not provided for:		
– Acquisition of concession intangible assets, plant and equipment *(note)*	**29,683**	110,548
– Properties under development in relation to development cost of existing projects	**–**	9,274
	29,683	119,822

Note: At 31 December 2016, the amount represented capital commitment contracted but not provided for acquisition of plant and equipment and concession intangible assets of HK$21,775,000 (2015: HK$105,966,000) and HK$7,908,000 (2015: HK$4,582,000), respectively.

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* (雲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 date of approval of these financial statements, 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 recognised and accepted to execute in Mainland China for the recovering the Outstanding Balance and the underlying interest from Top Vision ("**PRC Judgement**"). 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. On 10 August 2016, Sihui City People's Court* (四會市人民法院) accepted to execute the PRC Judgement in Mainland China and requested Swift Surplus to provide the financial position statement relating to Top Vision. On 30 August 2016, Sihui City People's Court adjudged to freeze the entire equity interest held by Top Vision on Sihui Sewage for 3 years from 30 August 2016 to 29 August 2019. Subsequent to the year-end, the Company instructed the legal counsel to institute arbitral proceedings against the Borrowers and the guarantees under the supplemental loan agreements and their respective guarantees by filing the notices of Arbitration to HKIAC. HKIAC has confirmed the filing of such notices and the institution of respective arbitral proceedings. As at 31 December 2016 and 2015, the loan receivables from Top Vision of HK$43.60 million were fully impaired.

The Board believed that there will be no significant financial impact on the Group as sufficient impairment loss on the Loan Receivables has been provided. It is unlikely that there will be a material adverse financial impact to the Group.

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

* The English names are for identification purpose only.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW AND BUSINESS REVIEW

Financial Review

The Group recorded a consolidated net profit of HK$84.90 million for the year ended 31 December 2016 (the "**FY2016**"), as compared to the consolidated net loss of HK$70.60 million for the year ended 31 December 2015 (the "**FY2015**"). The Board considers that the aforesaid turnaround from loss to profit was principally attributable to: (i) a gross profit growth contributed from renewable energy business and construction service business for water supply; (ii) the recent upturn in the financial market, resulting in a net gain on financial assets at fair value through profit or loss; (iii) a realized gain on disposal of investment fund and listed equity securities; and (iv) increase in other operating income mainly arising from a net gain generated from managed project and interest income.

Revenue and gross profit

For the FY2016, total revenue was HK$550.65 million, an increase of HK$22.06 million, or 4.17% from HK$528.59 million for the FY2015. The increase was primarily attributable to the continued business expansion of the Group with the new projects related to biogas power generation business commenced their operation in 2016.

For the FY2016, total gross profit was HK$223.98 million, an increase of HK$38.96 million from HK$185.02 million for the FY2015. The gross profit margin for the FY2016 was 40.68%, an increase of 5.68% from 35% for the FY2015. The increase in the gross profit margin was a result of an increase in revenue of 4.17% as compared to the decrease in cost of sales of 4.92%, reflecting: (i) better cost control management in construction projects to bring a higher profit margin and (ii) economies of scale due to the continued expanding business operation.

During the year under review, the main revenue and gross profit contributors were Yichun Water Industry Co., Ltd ("**Yichun Water**") and its subsidiaries ("**Yichun Water Group**") and Yingtan Water Supply Group Co., Ltd ("**Yingtan Water**") (formerly know as Yingtan Water Supply Co., Ltd) and its subsidiaries ("**Yingtan Water Group**"), which collectively accounted for 61.30% of the total revenue and 62.40% of the total gross profit.

The summary of total revenue and total gross profit is as follows:

	Revenue				**Gross Profit (G.P)**			
	2016	**%**	2015	%	**2016**	**G.P**	2015	G.P
	HK$'M	**to total**	*HK$'M*	to total	***HK$'M***	**%**	*HK$'M*	%
Water supply business	**112.04**	**20.35**	119.06	22.52	**37.60**	**33.56**	49.02	41.17
Sewage treatment business	**44.42**	**8.07**	48.38	9.15	**16.83**	**37.89**	19.75	40.82
Construction services business	**272.98**	**49.57**	294.57	55.73	**135.21**	**49.53**	101.05	34.30
Biogas power generation business	**121.21**	**22.01**	66.58	12.60	**34.34**	**28.33**	15.20	22.83
Total	**550.65**	**100**	528.59	100	**223.98**	**40.68**	185.02	35.00

Other operating income and expenses

Other operating income mainly consisted of interest income, a gain on the operation services provided pursuant to the Changsha Operation Contract, income from leasing equipment, rental income, VAT refund and government compensation. For the FY2016, other operating income was HK$76.57 million, an increase of HK$24.30 million from HK$52.27 million for the FY2015. This increase was primarily attributable to: (i) an increase in gain generated from the Changsha Operation Contract due to premium awarded for surplus production over guarantee annual capacity; (ii) compensation paid by the respective local government for property demolition in Yingtan City, PRC; (iii) an increase in loans interest income; and (iv) rental income received from leasing power generation equipment.

Net gain/(loss) on financial assets at fair value through profit or loss

Included in net gain on financial assets at fair value through profit or loss ("**FA**") comprised (i) HK$51.72 million for the fair value gain on investment fund ("**Fund A**"); (ii) HK$13.01 million for the fair value loss on listed equity securities; (iii) HK$27.38 million for the realized loss on the redemption of investment fund ("**Fund B**") due to the redemption amount less than the net carrying value of Fund B; and (iv) HK$10.97 million for the gain on disposal of listed equity securities. For FY2016, net gain on FA recorded HK$22.30 million, an increase of HK$112.93 million from the loss of HK$90.63 million for FY2015. The increase in net gain on FA was mostly due to fair value gain on the net asset value ("**NAV**") of the Fund A. In 2016, the Company invested HK$82.40 million into Fund A which primarily invests in listed securities in Hong Kong. The fair value of this unlisted financial asset is based on the NAV of the fund calculated on the last day of each calendar month and reported by the fund manager accordingly. The change in fair value on this financial asset of HK$51.72 million was solely on the gain of the NAV of the Fund A. The fair value of the fund and securities trading are determined based on the quoted market bid prices available on the Stock Exchange.

Net gain on disposal of available-for-sale investments

Included in gain on disposal of available-for-sale investments (the "**AFS**") of HK$35.70 million (FY2015: HK$12.72 million) was the realised gain on disposal of fund and listed equity securities of HK$33.99 million and HK$1.71 million, respectively. The increase in net gain on disposal of AFS by HK$22.98 million was mainly because the Company sold all benefit and right of unlisted US$ based investment fund (the "**Fund C**") to an independent third party at a consideration of HK$69 million and recognized a gain on disposal.

Impairment loss recognized on AFS

Included in impairment loss recognized on AFS of HK$9.70 million (FY2015: HK$58.54 million) was the loss arising from the change in fair value of listed securities resulting from a significant and prolonged decline in their fair values at the end of reporting period below their costs. The decrease of impairing loss of HK$48.84 million was mainly due to the disposal of Fund C and listed equity securities.

Selling and distribution expenses and administrative expenses

For the FY2016, selling and distribution costs together with administrative expenses ("**Total Expenses**") collectively increased by HK$28.50 million to HK$199.74 million (FY2015: HK$171.24 million). The rise was primarily attributable to the acquisition and establishment of new companies in the PRC which caused the increment of staff costs and associated operating expenses. These expenses mainly consisted of staff costs, insurance, rent and rates, legal and professional fee and depreciation. The ratio of Total Expenses for the FY2016 represented 36.27% of revenue, an increase of 3.87% from 32.40% for the FY2015. The increase was as a result of a greater increase in Total Expenses of 16.64% as compared to the increase in revenue of 4.17%.

Finance costs

Finance costs are mainly the bonds interests. For the FY2016, the finance costs were HK$24.08 million, an increase of HK$15.24 million from HK$8.84 million for the FY2015. The issuance of HK$300 million bonds during the year resulted in an increase of interest expenses (FY2015: HK$200 million bonds).

Share of results from associates

The Group had three associated companies, including 35% equity interests in Jinan Hongquan Water Production Co., Ltd ("**Jinan Hongquan**"), 30% equity interest in Super Sino Investment Limited ("**Super Sino**") together with its various wholly-owned subsidiaries ("**Super Sino Group**") and 10% equity interests in Yu Jiang Hui Min Small-Sum Loan Company Limited ("**Yu Jiang Hui Min**"). For the FY2016, the Group shared the loss of HK$1.41 million (FY2015: profit of HK$7.33 million) which was mainly from the loss of HK$2.20 million from Jinan Hongquan, the gain of HK$1.03 million from Super Sino Group and the loss of HK$0.24 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. For the FY2016, certain subsidiaries such as Gaoming Huaxin, Nanjing Feng Shang, Huiming Technology, Changsha Huiming, Wuzhou New China Water, Qingyuan City Greenspring and Shenzhen City New China Water Environmental Technology Limited ("**Shenzhen New China Water**") (formerly known as Shenzhen City Greenspring Recycling Resources Technology Limited*) are entitled to have 50% to 100% exemption of income tax. 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. For the FY2016, income tax expense increased by HK$19.98 million to HK$39.92 million (FY2015: HK$19.94 million). Such increase was primarily due to the profits generated from construction projects for water supply and an absence of the reversal deferred tax which recorded in 2015. As of 31 December 2016, the Group had fulfilled all its tax obligations and did not have any tax disputes.

Profit attributable to Owners of the Company

For the FY2016, profit attributable to owners of the Company was approximately HK$31.26 million (FY2015: loss of HK$97.50 million), a substantial increase of HK$128.76 million primarily due to a net gain on investment of FA and a realized gain on disposal of investment fund and equity securities.

Exposure to Fluctuations in Exchange Rates

Almost all of the Group's operating activities are carried out in the PRC with the most of transactions and assets denominated in Renminbi ("**RMB**") but the books are recorded in Hong Kong dollars ("**HKD**"). The management of the Group noted that the recent fluctuation in the exchange rate between RMB and HKD, and is of the opinion that it does not currently have a material adverse impact of the Group's financial position. During the year, depreciation in RMB against HKD resulted in a net exchange loss of HK$3.60 million (FY2015: exchange gain of HK$1.53 million).The Group currently does not have a foreign currency hedging policy. The management will continue to monitor the foreign exchange exposure and will consider hedging significant foreign currency exposure when the need arise.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

For the FY 2016, the Group financed its operations with internally generated cash flows, banking facilities and other borrowings. The Group recorded cash and bank balance including cash held at financial institutions of HK$459.18 million (FY2015: HK$476.87 million) including an overdraft held at financial institutions of HK$31.06 million (FY2015: Nil). The decrease in cash and bank balance of the Group was mainly due to the payments for the acquisition of subsidiaries, development of properties and the acquisition of land use rights. With the steady operating cash flows, the Group should 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 HKD and RMB.

The net current assets for the Group in 2016 were HK$345.23 million (FY2015: HK$517.87 million). The current ratio (current assets over current liabilities) is 1.40 times as at FY2016 (FY2015: 1.73 times).

Net asset value was HK$1,638.21 million (FY2015: HK$1,652.56 million). Net asset value per share was HK$1.03 (FY2015: HK$1.04).

As at FY2016, the Group's consolidated non-current assets increased by HK$157.21 million to HK$1,547.21 million (FY2015: HK$1,390.00 million) mainly due to several subsidiaries related to biogas generation business being acquired and the acquisition of land use rights in Nanjing City and Huizhou City, PRC.

INVESTMENT PROPERTIES

Xiabu Water Plant Control Centre ("**Xiabu Centre**") has divided into two-block of buildings located at No. 1 Qilin East Road, Xinjiang New District, Yingtan City, Jiangxi Province, the PRC which was wholly-owned by Yingtan Water. These properties are held on long-term lease expiring in February 2061. The usage of these buildings are for the purpose of office premise by own use and commercial leasing. The total gross floor area is approximately 25,170 square meters. The commercial lettable floor area for leasing is 11,191 square meters and all commercial rentable rooms were leased out during the year under review. The tenancy varied according to the terms agreed with tenants. As at FY2016, the carrying value of the Xiabu Centre after revaluation for leasing portion was HK$32.51 million (FY2015: Nil). For FY2016, the gross rental income from investment properties less direct outgoing recorded HK$1.34 million (FY2015: HK$1.26 million.)

OTHER NON-CURRENT ASSETS

During 2015, Yingtan Water entered into agreements with a local government office to transfer all units of the investment property (the "**Resumption Properties**") to the local government for the development of a composite project (the "**New Premises**"), which Yingtan Water received compensation including transfer of certain construction floor areas of the New Premises (the "**Yingtan New Premises**"). As at FY2016, the construction of New Premises are still under construction and is expected to be completed in August 2017. The carrying value of the Yingtan New Premises was HK$19.37 million (FY2015: HK$20.71 million).

INVENTORIES

As at FY2016, inventories of HK$184.59 million (FY2015: HK$204.38 million) mainly comprised of properties held for sale of HK$151.64 million. Properties held for sale represented the construction of new commercial and residential buildings by Yingtan Xiang Rui Property Limited* (鷹潭祥瑞置業有限公司) ("Xiang Rui Property") at Yingtan City, Jiangxi Province, the PRC, an indirect non wholly-owned subsidiary of the Company. The properties namely Yu Jing No.1* (御景壹號) located at No. 8 Xinjiang North Road, Xinjiang New District, Yingtan City, Jiangxi Province, the PRC which was completed in 2016. There were 394 residential units and 54 commercial units with total saleable gross floor area of approximately 27,312 square meters launched for sale. As at FY2016, 137 residential units and 4 commercial units have been sold. During the year, Xiang Rui Property commenced to deliver the sold units to the buyers and recognized the results for the year 2016. For FY 2016, the income and gross loss recognised from the sale of properties were HK$25.22 million and HK$0.24 million respectively.

PORTFOLIOS AND PERFORMANCE OF SECURITIES INVESTMENT

As at FY2016, the FA recorded at fair value of HK$232.81 million (FY2015: HK$220.06 million). The portfolio investment contained Fund A and equity securities listed in Hong Kong.

As at FY2016, the AFS recorded at fair value of HK$90.44 million (FY2015: HK$181.42 million). The portfolio investment contained only equity securities listed in Hong Kong.

The Group held a diversified portfolio of securities trading and investments including fund investment and the total market value of the portfolio investments was HK$323.25 million, representing 11.74% of the total assets value of the Group as at FY2016. The following analysis was the Group's top five investments at the end of reporting period:

Name of stock listed on the Stock Exchange	Stock code	Brief description of the business	Number of shares held	Effective shareholding interest held	Initial Investment cost	Market value as at 31 December 2016	Realised gain for the year ended 31 December 2016	Accumulated unrealised holding gain/(loss) on revaluation	Percentage to total assets value of the Group as at 31 December 2016	Classification	Dividend received/ receivable during the year
				(%)	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*			*HK$*
Tiger Capital Fund SPC	Unlisted	Investment in Hong Kong listed equity securities which is managed by A Plus Capital Management Limited	80,000	–	82,400	134,123	–	51,723	4.87%	FA	–
Leyou Technologies Holdings Limited	1089	Trading and manufacturing of chicken meat products, animal feeds and chicken breeds.	25,300,000	0.882%	28,839	40,480	10,656	11,641	1.47%	FA	–
Mega Expo Holdings Limited	1360	Organisation of trade shows and exhibitions, providing ancillary services and sub-contracting and management services for exhibitions and trade shows.	25,265,000	1.870%	20,147	21,981	695	1,834	0.80%	AFS	–
China Best Group Holding Limited	370	Manufacture and sales of coal, international air and sea freight forwarding and the provision of logistics services as well as trading of securities and trading of fuel oil, electronic devices and other commodities.	117,000,000	1.611%	20,244	21,645	–	1,401	0.79%	AFS	–
HK Life Sciences and Technologies Group Limited	8085	Anti-aging and stem cell technology businesses; trading business; money lending business; and securities investment.	135,824,000	2.865%	21,584	18,880	415	(2,704)	0.69%	AFS	–

The above top five investments in aggregate of HK$237.11 million represented 73.35% in value of the Group's investment portfolio.

LIABILITIES AND GEARING

Total liabilities of the Group as at FY2016 were HK$1,114.63 million, an increase of HK$145.53 million from HK$969.10 million for FY2015. The increase was mainly attributable to addition loans borrowing to finance the expansion of biogas power generation business and investment in equity securities. Total liabilities mainly comprised of the bank and other borrowings of HK$483.19 million (FY2015: HK$416.47 million), trade and other payables of HK$256.26 million (FY2015: HK$306.04 million) and deferred tax liabilities of HK$65.17 million (2015: HK$54.58 million). Except for the following 2016 Fixed-rate New Other Loan denominated in HKD, borrowings were mainly denominated in RMB.

On 14 June 2016, the Company, Guarantor 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 and Series B Bond (the "**2016 Fixed-rate New Other Loan**"). Series A Bond of HK$200 million and Series B Bond of HK$100 million was issued on 14 June 2016 and on 7 December 2016 respectively. This 2016 Fixed-rate New Other Loan will mature in one year from the date of issuance. As at FY2016, this 2016 Fixed-rate New Other Loan amounted to HK$285.27 million and were classified as short-term loans. The repayment of the 2016 Fixed-rate New Other Loan is guaranteed by a substantial shareholder of the Company.

As at FY2016, the Group's total bank and other borrowings were HK$483.19 million (FY2015: HK$416.47 million). For the maturity profile, refer to the table below:

Debt Analysis

	31 December 2016		31 December 2015	
	HK$'000	*%*	*HK$'000*	*%*
Classified by maturity				
– repayable within one year				
Bank borrowings	**48,729**	**10.08**	29,007	6.97
Other loans	**295,265**	**61.11**	203,982	48.97
	343,994	**71.19**	232,989	55.94
Classified by maturity				
– repayable more than one year				
Bank borrowings	**74,245**	**15.37**	103,852	24.94
Other loans	**64,947**	**13.44**	79,627	19.12
	139,192	**28.81**	183,479	44.06
Total bank and other borrowings	**483,186**	**100**	416,468	100

	31 December 2016		31 December 2015	
	HK$'000	*%*	*HK$'000*	*%*
Classified by type of loans				
Secured	**118,509**	**24.53**	123,309	29.61
Unsecured	**364,677**	**75.47**	293,159	70.39
	483,186	**100**	416,468	100
Classified by type of interest				
Fixed rate	**408,141**	**84.47**	259,196	62.24
Variable-rate	**17,863**	**3.70**	87,141	20.92
Interest free rate	**57,182**	**11.83**	70,131	16.84
	483,186	**100**	416,468	100

The Group's gearing ratio as at FY2016 was 40.49% (FY2015: 36.97%). The ratio was calculated by dividing total liabilities of HK$1,114.63 million over total assets of the Group of HK$2,752.83 million.

TRADE AND OTHER RECEIVABLES

As at FY2016, the Group's trade and other receivables were approximately HK$286.24 million (FY2015: HK$305.61 million). These comprised of: (i) trade receivables of HK$61.51 million, (ii) other receivables of HK$95.33 million, (iii) loan receivable of HK$3.55 million and (iv) deposits and prepayments of HK$125.85 million.

Trade receivables increased by HK$25.83 million to HK$61.51 million due to certain renewable energy projects commencing operation in 2016 (FY2015: HK$35.68 million). The average turnover period of the trade receivables as at FY2016 were 34 days (FY2015: 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$22.60 million to HK$95.33 million (FY2015: HK$72.73 million) which mainly included the remaining amount of consideration of HK$40.90 million for the disposal of Fund C. Subsequent to the year-end, HK$20.9 million of partial consideration received for Fund C pursuant to the supplemental agreement.

Loans receivables decreased by HK$53.75 million to HK$3.55 million (FY2015: HK$57.30 million) due to unrelated parties settled their loans during the year. Loan receivables of HK$3.55 million (FY2015: HK$57.30 million) represented an unsecured loan to one (FY2015: two) unrelated party which bear fixed annual interest rate of approximately 36%.

Deposits and prepayments recorded HK$125.85 million which mainly represented payment-in-advance of HK$15 million for the subscription of Fund A and deposits paid in total of HK$50.24 million for the tender of sewage treatment infrastructure construction project and for the acquisition of sewage treatment plant. The decrease by HK$14.05 million from HK$139.90 million as at FY2015 was mainly the material procurement deposit of HK$47.75 million being refunded in 2016. Subsequent to the year-end, the deposits were fully refunded and the subscription of Fund A was completed.

TRADE AND OTHER PAYABLES

As at FY2016, the Group's trade and other payables were approximately HK$256.26 million (FY2015: HK$306.04 million). The credit terms of trade payables vary according to the terms agreed with different suppliers.

CAPITAL RAISING AND USE OF PROCEEDS

The Company has not conducted any equity fund raising activities during the year.

During the year, the Group incurred capital expenditures amounting to HK$24.66 million (FY2015: HK$59.60 million) for acquisition of concession intangible assets.

BUSINESS REVIEW

The year 2016 marks the beginning 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. In response to the challenges that the Chinese government has promulgated a series policy together with the increase of governmental funds in green development, focuses on promoting ecological civilization and environmentally friendly manufacturing methods. This is further proof of the Chinese government giving priority to environmental issues and also indicates the direction of the future development of China's environmental industry. To capture these potential opportunities and adhere to the Group's corporate vision "**Making the World Endowed with Clean Water, Blue Sky and Vivid Green Land**", the Group has actively been exploring in the areas of environmental friendly renewable energy business through acquisition and continue to invest more funds 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 (FY2015: 5 water supply projects). The daily aggregate water supply capacity was approximately 1.94 million tonne (including the capacity of 1.60 million tonne of two associated companies) (FY2015: 1.91 million tonne). The revenue and gross profit from water supply business amounted to HK$112.04 million and HK$37.60 million respectively, representing 20.35% and 16.79% of the Group's total revenue of HK$550.65 million and total gross profit of HK$223.98 million respectively. The overall gross profit ratio was 33.56% (FY2015: 41.17%). The decrease in gross profit ratio was due to the drop of water supply volume which offset the benefit from the increase in water tariff. The rates for the water supply ranged from HK$1.34 to HK$2.57 per tonne.

Analysis of water supply projects on hand is as follows:

	Project name	Equity interest held by the Company (%)	Designed daily capacity of water supply (tonne)	Provincial cities in PRC	Exclusive operating right (expiry in)
1	Yichun Water	51	190,000	Jiangxi	2034
2	Yingtan Water	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		1,940,000		

Sewage treatment business

There are 3 sewage treatment projects of the Group located in Jiangxi, Guangdong and Shandong provinces (2015: 3 sewage treatment projects). The daily aggregate sewage disposal capacity was approximately 170,000 tonne (FY2015: 150,000 tonne) generating a revenue of HK$44.42 million and gross profit of HK$16.83 million, representing 8.07% and 7.51% of the Group's total revenue of HK$550.65 million and total gross profit of HK$223.98 million respectively. The gross profit ratio was 37.89% (FY2015: 40.82%). The decrease in gross profit ratio was due to VAT tax paid in 2016 whereas VAT tax was exempted in 2015. The rates for sewage treatment ranged from HK$0.63 to HK$1.24 per tonne.

Analysis of sewage treatment projects on hand is as follows:

	Project name	Equity interest held by the Company (%)	Designed daily 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	120,000	Jiangxi	2035
	Total		170,000		

Construction services for water supply and sewage treatment infrastructure

Construction services included water meter installation, infrastructure construction and pipeline construction and repair. These were the Group's major sources of revenue and gross profit contributing HK$272.98 million and HK$135.21 million respectively, representing 49.57% and 60.37% of the Group's total revenue and total gross profit respectively. The overall gross profit ratio was 49.53% (FY2015: 34.30%). The increase in gross profit ratio was due to stringent cost control policy adopted and successfully bid more contract works with higher contracts price.

Exploitation and sale of renewable energy business

Up to the date of this announcement, the Group has successfully secured 20 biogas power generation projects which are located in various provincial cities across China including Jiangsu, Hunan, Shaanxi, Anhui, Hainan, Jiangxi, Sichuan, Zhejiang, Chongqing, and Guangdong. Comparing with the FY2015, the revenue and gross profit increased by HK$54.63 million and HK$19.14 million respectively. This was because 15 projects have operation in 2016 (2015: 3 projects). The overall gross profit ratio was 28.33% (FY2015: 22.83%). the average electricity rate was HK$0.67 per kilowatt-hour and the average CNG rate was HK$1.84 per m^3.

	Revenue				Gross Profit (G.P)			
	2016 *HK$'M*	**% to total**	2015 *HK$'M*	% to total	**2016** *HK$'M*	**G.P %**	2015 *HK$'M*	G.P %
Biogas power generation business								
– Sale of electricity	**70.70**	**58.33**	29.98	45.03	**24.90**	**35.22**	7.99	26.65
– Sale of compressed natural gas	**39.42**	**32.52**	27.53	41.35	**5.81**	**14.74**	2.47	8.97
– Service income from collection of landfill gas	**11.09**	**9.15**	9.07	13.62	**3.63**	**32.73**	4.74	52.26
Total	**121.21**	**100**	66.58	100	**34.34**	**28.33**	15.20	22.83

Analysis of renewable energy projects on hand is as follows:

	Project name	**Provincial cities in PRC**	**Business mode**	**Equity interest held by Company (%)**	**Actual/Expected Commencement date of operation**	**Exclusive right to collect landfill gas expiry in**
1	Nanjing Jiaozishan	Jiangsu	Power generation	100	October 2013	June 2025
2	ZhuZhou Biogas	Hunan	Power generation	100	November 2014	October 2023
3	Shenzhen Pingshan	Guangdong	Power generation	100	January 2016	September 2024
4	Baoji	Shaanxi	Power generation	100	May 2016	April 2028
5	Chenzhou Environmental	Hunan	Power generation	100	March 2016	February 2029
6	Huayin Heng Yang	Hunan	Power generation	100	March 2016	October 2029
7	Chongqing Camda	Chongqing	Power generation	100	May 2016	May 2028
8	Hainan Camda	Hainan	Power generation	100	May 2016	*Note 1*
9	Wuzhou Landfill	Guangxi	Power generation	100	September 2016	September 2022
10	Changsha Operation Contract*	Hunan	Power generation	–	May 2014	October 2039
11	Changsha Heimifeng Landfill Site*	Hunan	CNG	94.6	December 2015	
12	Shenzhen Xiaping Landfill Site	Guangdong	CNG	88	July 2015	April 2030
13	Liuyang Biogas	Hunan	CNG	100	July 2016	October 2038
14	Qingshan Landfill Site	Guangdong	CNG/Power generation	100	CNG: May 2016 Power generation: October 2016	July 2024

	Project name	Provincial cities in PRC	Business mode	Equity interest held by Company (%)	Actual/Expected Commencement date of operation	Exclusive right to collect landfill gas expiry in
15	He County	Anhui	CNG	100	June 2017	February 2036
16	Yichun South Suburban	Jiangxi	Power generation	100	June 2017	September 2026
17	Ningbo Qiyao	Zhejiang	Power generation	100	February 2017	June 2028
18	Datang Huayin	Hunan	Power generation	100	February 2017	March 2024
19	Chengdu City	Sichun	Power generation	49	March 2017	December 2027
20	Xinhua	Hunan	Power generation	100	August 2017	December 2026

* Projects of Changsha Subcontracting Contract and Changsha Heimifeng Landfill Site are sharing household waste resources in the same site in Changsha.

Note 1: The collection period of landfill gas is until the volume of landfill gas generated from Haikou City Yan Chunling Landfill reduced to the level of which could not be further utilized.

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

(I) Ningbo Qiyao Project

On 15 December 2016, New China Water (Nanjing) Renewable Resources Investment Company Limited*, an indirect wholly-owned subsidiary of the Company, entered into acquisition agreement with China Shipbuilding Industry Corporation (Shanghai) New Energy Company Limited* ("**China Shipbuilding**") (中船重工（上海）新能源有限公司) to purchase the entire equity interest of Ningbo Qiyao New Energy Company Limited* ("**Ningbo Qiyao Project**") (寧波齊耀新能源有限公司), at a consideration of approximately RMB5.9 million (equivalent to approximately HK$6.6 million). Ningbo Qiyao Project principally engages in the operation of landfill gas power generation plant in the Ningbo Yinzhou landfill, located in Zhejiang Province. Up to the date of this announcement, the acquisition was completed in February 2017.

(II) Shandong Qiyao Project

On 30 December 2016, New China Water (Nanjing) entered into the Acquisition Agreement with China Shipbuilding to purchase the entire equity interest of Shangdong Qiyao New Energy Company Limited*（山東齊耀新能源有限公司）("**Shandong Qiyao Project**"), at a consideration of approximately RMB1.64 million (equivalent to approximately HK$1.84 million). Shandong Qiyao Project principally engages in the operation of landfill gas power generation plant in the Shandong Laiwu landfill, located in Shandong Province. Up to the date of this announcement, the acquisition has not yet to complete.

(III) Yichun South Suburban Landfill Project

On 23 September 2016, Yichung Environmental Hygiene Management Office* (宜春市環境偉生管理處) ("**Hygiene Management Office**") and New China Water (Nanjing) entered into a 10-year agreement on the neutralized collection and power generation of landfill gas, setting out details on the collection and utilization of landfill gas produced at Yichun South Suburban Solid Waste Landfill ("**South Suburban Landfill Project**"). The Hygiene Management Office shall allow New China Water (Nanjing) to neutralize and collect all the landfill gas generated at South Suburban Landfill to eliminate environmental pollutions and safety hazards caused by landfill gas. New China Water (Nanjing), in return, can comprehensively utilize the collected landfill gas resource and obtain profits thereof. The South Suburban Landfill Project Company was established in November 2016.

(IV) Xinhua County Project

On 23 December 2016, Xinhua County Bureau of City Administration and Law Enforcement* (新化縣城市管理行政執法局) ("**Xinhua City Administration**") and Shenzhen New China Water entered into a cooperation agreement on Xinhua County Dazhichong Solid Waste Landfill Biogas Power Generation Project ("**Xinhua County Project**") with an operating period of ten years. Xinhua City Administration shall provide the production site and waste resources for the integrated utilization of landfill gas. Shenzhen New China Water shall establish a project company at Xinhua County, Loudi City, Hunan Province to be responsible for the construction and operation of the project. Upon the commencement of operation of the project, Shenzhen New China Water shall pay 3% of the project's annual power generation revenue to Xinhua City Administration in exchange for using the resources. Up to the date of this announcement, the Xinhua County Project Company has established in December 2016.

ACQUISITION AND/OR ESTABLISHMENT OF RENEWABLE ENERGY PROJECTS AFTER THE YEAR UNDER REVIEW

(A) Datang Huayin Project

On 23 January 2017, Shenzhen New China Water, an indirect wholly-owned subsidiary of the Company, entered into the Acquisition Agreements with Datang Huayin Electric Power Co., Ltd* (大唐華銀電力股份有限公司) and Xiangtan Feihong Industry Company* (湘潭飛宏實業公司) (collectively known as "**Vendors**"), to purchase the entire equity interests of the Datang Huayin Xiangtan Environmental Electricity Generation Company Limited* (大唐華銀湘潭環保發電有限責任公司) ("**Datang Huayin Project**") at an aggregated consideration of approximately RMB0.97 million (equivalent to approximately HK$1.08 million) and the assuming of liabilities and expenses in aggregate of approximately RMB4.6 million (equivalent to approximately HK$5.11 million), respectively. Datang Huayin Project is principally engages in the harmless treatment of city solid waste in Xiangtan Yuetang landfill. Up to the date of this announcement, the transaction has been completed in February 2017.

(B) Fengcheng Landfill Project

On 17 March 2017, Fengcheng Environmental Hygiene Department* (豐城市環衛處) and Shenzhen New China Water have entered into an agreement on the neutralized collection and power generation of landfill gas. The agreement has a term of 15 years. Fengcheng Environmental Hygiene Department will allow Shenzhen New China Water to neutralize and collect all the landfill gas produced at Fengcheng Municipal Solid Waste Landfill ("**Fengcheng Landfill Project**"). In return, Shenzhen New China Water shall be responsible for the collection and utilization of Fengcheng landfill gas, the construction and production, the integrated utilization of collected landfill gas resources and the obtainment of profits. Up to the date of this announcement, the Fengcheng Landfill Project Company has not yet to establish.

OTHER EVENTS DURING THE YEAR UNDER REVIEW

- **Acquisition of land use right in Nanjing City, PRC**

  Through public tender, New China Water (Nanjing) and New China Water (Nanjing) Carbon Company Limited* (新中水（南京）碳能有限公司) (collectively known as "Nanjing Assignees"), both are indirect wholly-owned subsidiaries of the Company, had successfully bid a tender for the acquisition of land in Nanjing City on 14 April 2016. On 22 April 2016, Nanjing Assignees entered into Stated-owned Construction Land Use Right Transfer Agreement (the "**Land Agreement**") with Nanjing City Stated-owned Land Resources Bureau* (南京市國土資源局) ("**Nanjing Assignor**") for a consideration of RMB42.99 million (equivalent to HK$50.20 million) and paid HK$25.10 million being 50% of land cost as a deposit on 20 April 2016. The remaining balance of land cost shall be paid by 14 July 2016. The Nanjing Land is located in Nanjing City Xuanwu District Xiaolingwei Road Kirin Nanjing Science and Technology Innovation Park* (南京市玄武區孝陵衛街道麒麟科創園) 2-2(A) and 2-2(B) ("**Nanjing Land**") with an area of 26,340.79 m^2. Pursuant to the Land Agreement, the land use right period is 50 years. The completion of properties construction is expected in July 2020. The Nanjing Land is planned to use as research and development center, office buildings and property development. The acquisition of this land use right was completed in July 2016.

- **Acquisition of land use right in Huizhou City, PRC**

  Through the public tender, Huizhou Swan Heng Chang Property Development Company Limited* (惠州鴻鵠恒昌置業有限公司) (the "**Huizhou Assignee**"), an indirect wholly-owned subsidiary of the Company, had successfully bid the tender for the acquisition of land in Huizhou City on 14 June 2016. On 30 June 2016, Huizhou Assignee entered into Huizhou City Stated-owned Construction Land Use Right Transaction Confirmation (the "**Land Confirmation**") with Huizhou City Stated-owned Land Resources Bureau* (惠州市國土資源局) ("**Huizhou Assignor**") for a consideration of RMB25.90 million (equivalent to HK$30.24 million) ("**Consideration**") and fully paid the Consideration. The Huizhou Land is located in Huizhou City Huicheng District Sandong Town, Huinan Road* (惠州市惠城區三棟鎮惠南大道) with net area of 30,544.2 m^2. Pursuant to the Land Confirmation, the land use right period is 50 years. The Huizhou Land is planned to use for research and development center, office buildings and property development. Up to the date of this announcement, the acquisition of this land use right was completed in September 2016.

- **Adjustment to water tariff**

  The Yingtan Municipal Commission of Development and Reform, Jiangxi Province, the People's Republic of China approved the increase in water tariffs according to the newly adopted multi-step water price system in Yingtan City. The existing water tariff of RMB1.25 to RMB6.00 will be increased to RMB1.40 to RMB7.00 with effect from 1 July 2016.

OTHER EVENT AFTER THE YEAR UNDER REVIEW

1. Mingyue Mountain Project

On 17 February 2017, Yichun Mingyue Mountain Spa Scenic Zone Management Committee* 宜春市明月山溫泉風景名勝區管理委會 ("**Mingyue Mountain Spa Management Committee**") and Yichun Mingyue Mountain Fangke Sewage Treatment Co. Ltd.* 宜春市明月山方科污水處理有限公司 ("**Mingyue Mountain Fangke**") have entered into a BOT concession contract for the build, operate and transfer of Yichun Mingyue Mountain Wentang Sewage Treatment Plant ("**Mingyue Mountain Project**") with a term of 26 years. Located in Wentang Town, Yuanzhou District, Yichun, Jiangxi Province, the project is estimated to cost approximately RMB36 million, and has a designed capacity of 20,000 tonnes per day in the short term and 30,000-40,000 tonnes per day in the long term. In September 2016, Mingyue Mountain Fangke was established for the purpose of Mingyue Mountain Project with registered capital of no less than RMB12 million. This project company is held as to 65% by Yichun Fangke Sewage Treatment Company and as to 35% by Jiangxi Mingyue Mountain Travel Group Company Limited* (江西明月山旅遊集團有限公司).

LITIGATIONS

(a) 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) ("**Sihui Sewage**") 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. Up to the date of this announcement, the liquidators are in the course of raising funds to proceed with their proposed plan against Top Vision.

On 16 July 2015, the Zhaoqing Intermediate People's Court adjudged that the Final Judgement recognised and accepted to execute in Mainland China for the recovering the Outstanding Balance and the underlying interest from Top Vision ("**PRC Judgement**"). 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. On 10 August 2016, Sihui City People's Court* (四會市人民法院) accepted to execute the PRC Judgement in Mainland China and requested Swift Surplus to provide the financial position statement relating to Top Vision. On 30 August 2016, Sihui City People's Court adjudged to freeze the entire equity interest held by Top Vision on Sihui Sewage for 3 years from 30 August 2016 to 29 August 2019. Subsequent to the year-end, the Company instructed the legal counsel to institute arbitral proceedings against the Borrowers and the guarantees under the supplemental loan agreements and their respective guarantees by filing the notices of Arbitration to HKIAC. HKIAC has confirmed the filing of such notices and the institution of respective arbitral proceedings. As at 31 December 2015 and 2016, the loan receivables from Top Vision of HK$43.60 million were fully impaired.

The Board believed that there will be no significant financial impact on the Group as sufficient impairment loss on the Loan Receivables has been provided. It is unlikely that there will be a material adverse financial impact of the Group.

(b) 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* (雲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 date of this announcement, Yunnan Chaoyue Gas has not performed the repayment obligation according to the Repayment Plan and the civil enforcement is still executed by Kunming Court without significant progress.

The aforesaid litigation is unlikely to have any significant material adverse financial impact on the Group.

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

CAPITAL COMMITMENTS

As at FY2016, the Group has the capital commitments contracted but not provided for acquisition of property, plant and equipment and concession intangible assets approximately HK$29.68 million (2015: HK$110.55 million) and no properties under development in relation to development costs of existing projects have been provided (2015: HK$9.27 million).

CONTINGENT LIABILITIES

During the year, the Company issued guarantees to banks in respect of bank borrowings made by two subsidiaries which expire on 24 May 2018 and 26 September 2019. As at FY2016, the maximum liability of the Company relating to the aforesaid guarantee issued is the outstanding amount of the bank borrowings of the subsidiaries of HK$29.03 million (FY2015: HK$47.75 million).

PLEDGE OF ASSETS

The Group's obligations under finance leases, bank loans and other loans of HK$149.27 million in total as at 31 December 2016 (2015: HK$123.31 million) were secured by charges over:

(i) property, plant and equipment in which their carrying amount was HK$33.20 million (2015: HK$ nil); and

(ii) contractual rights to receive revenue generated by certain of our subsidiaries.

DIVIDENDS

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2016. (2015: Nil)

CHANGES IN INFORMATION OF DIRECTOR

Pursuant to Rule 13.51B(1) of the Listing Rules, changes in information of Directors are set out as follows:

1. Mr. Wong Siu Keung, Joe, an independent non-executive Director ("INED") of the Company, was appointed as an INED of Worldgate Global Logistics Limited (Stock code: 8292) with effect from 17 June 2016. The shares of this company is listed on the Growth Enterprise Market of the Stock Exchange;

2. On 21 September 2016, Mr. Li Jian Jun ("**Mr. Li**") has resigned as an INED and ceased to be the member of each of the audit committee, the remuneration committee and the nomination committee. At the same date, Ms. Qiu Na has been appointed as an INED and the member of the audit committee to replace Mr. Li. Also, Mr. Guo Chao Tian currently is an INED and the member of the audit committee. He has been appointed to be the member of each of the remuneration committee and the nomination committee to replace Mr. Li.

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

NO MATERIAL CHANGE

Save as disclosed in this announcement, during the year ended 31 December 2016, 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 2015.

EMPLOYEES

As at 31 December 2016, excluding jointly controlled entities and associates, the Group had 1,093 (2015: 1,128) employees, of which 13 (2015: 10) are Hong Kong employees. During the year, total employee benefit expenses, including directors' emoluments and provident funds, was HK$153.03 million (2015: HK$116.32 million). The increase was caused by several of our renewable energy projects have commenced their operations in 2016. 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

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 Listing Rules throughout the financial year ended 31 December 2016 except for the following deviations:

- Pursuant to the 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 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 maximizes 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 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 were not appointed for a specific term but they are subject to retirement by rotation and re-election at annual general meeting ("**AGM**") of the Company in line with the Company's Article of Association.

The Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code.

CHAIRMAN STATEMENT

2016 was a year for the Group to carry out steady operation and intensify management. As this year marked the beginning of China's "13th Five-year Plan", national favourable policies were presenting business opportunities to the environmental protection industry. We were proactively coping with the new situation and new challenges in the industry by strengthening corporate management as well as carrying out reform and innovation programmes on an ongoing basis, and then looking for new development and creating a new and good prospect.

Market Review

In 2016, the environmental protection industry, a major strategic emerging industry under the "13th Five-year Plan", remained to be the trend of development which received strong policy support. This industry played a more major role in the supply-side reform programme particularly under the environment where the economy was facing pressure from transformation and there was an urgent need to renovate the ecological environment. The reform of the urban water supply industry was gradually deepening with the increasing deregulation of the water service market. In the relevant "Guiding Opinions on the Market-oriented Reform of Urban Public Utilities" published in 2002 and the "Measures Governing the Franchising of Municipal Public Utilities" published in 2004 by the Ministry of Construction respectively, the criteria for commissioning the franchising of municipal public facilities were specified so that substantial progress was made in the reform of the urban water supply industry. At present, some Chinese domestic water supply companies are reforming and exploring the property ownership regime in various ways, resulting in various patterns of reform being carried out in the urban water supply industry. In the mean time, China's urban water supply industry has successfully gone through the construction period into a maturity stage primarily dominated by the service industry. As China is introducing various water-saving initiatives, water consumption per unit of GDP and water consumption per capita will be gradually reducing. However, given the increasing population, deepening urbanization and growing industrial production, there continues to be stable growth in the overall demand in the urban water supply industry.

As to the new energy segment, China has been placing increasing emphasis on environmental protection in recent years to encourage the use of new technologies and new energy to reduce the greenhouse effect, promote a virtuous ecological cycle and keep reducing the use of fossil fuels. Against this backdrop, biogas power generation is one of the typical new energy sources. Compared with other gases, biogas has a better blast-resistant performance and is a clean fuel with a high fuel value. Biogas power generation will help reduce greenhouse gas emissions, which is conducive to mitigating the greenhouse effect and reducing a large amount of organic waste. It is a typical resource recycling project. For these reasons, it has good economic and environmental benefits. Moreover, the development of biogas power generation both reduces environmental pollution and creates a new way for energy use in remote rural areas to generate an income stream for general farmers. According to the analysis in the "Report on the Market Demand in and Investment Advice on China's Biogas Power Generation Industry for 2016 – 2021", more than 50 million rural households will become biogas users in 2015, and the annual utilization of biogas is expected to reach 44 billion cubic meters in China by 2020. This suggests that biogas power generation holds enormous growth potential and a broad market prospect.

Business Review

I. *The water supply segment continued to operate well and attained steady growth in profits.*

Generally speaking, the profit contribution from the Group's urban piped water supply and sewage treatment companies remained essential for the Group's profitability, and the profits of these companies increased steadily. While improving the water quality processing technology and delivering quality services, the Group grew in a flexible way, carried out management in an orderly manner and operated smoothly. Among these companies, Yingtan Water Supply Co., Ltd. performed excellently, with the profit ranking first within the Group. It scored a "Class A Taxpayer" credit rating in Yingtan City, and officially changed its name to Yingtan Water Supply Group Co., Ltd. Yichun Water Industry Co., Ltd. expanded the water service market aggressively. Its project revenue increased substantially, with the profit ranking second. It is currently working hard to coordinate with the government system to make preparations for the implementation of the tiered-pricing policy, with expectations to perform better in this aspect. Other water service companies were operating more mature and continued to generate profits, which laid a sound foundation for the further development of the Group.

II. *The new energy segment looked for innovation while making steady progress, with profit growing but lower than expected.*

The rate of profit growth in the new energy segment was lower than expected due to the substantial fall in natural gas prices, but we remained optimistic about the growth potential of the solid waste segment in future. We have been looking for our own development path with the spirit of overcoming difficulties and exploring a new horizon, and continuing with our investment in quality projects. During the year, in addition to the existing 17 projects, we successfully entered into a sale and purchase agreement and a cooperation agreement for the acquisition of four landfill gas power generation projects in Yichun, Shandong, Ningbo and Xinhua, with a total installed capacity of 92.24 megawatts, suggesting that our size of investment was growing.

To grow the new energy segment faster and better, we devoted more efforts to intensifying reform and regulating management, optimized strategic planning and improved management rules and regulations for building a solid growth foundation.

1. We achieved the development advantages by combining regional operations and management with business management backed by the delicacy management of projects.

   i. We reinforced and improved the target management system of the management team, staff performance and remuneration management system, production performance management system and production safety management system; offered incentives; exercised stringent control over costs; and kept increasing efficiency in the management.

ii. We stepped up the building of a technical team and formed an internal expert groups to lay a solid foundation for the growing business. We formed a team of experts to conduct professional training in project construction, operation and maintenance of biogas power generating plants and biogas collection technology, with an aim to enhance day-to-day operation rules and safety responsibility management for technical staff at all levels.

iii. Having built up experience and improved learning for years during the process of project investment, we further improved the project investment process and assessed projects in a scientific way so as to make decisions safely.

2. The corporate structure and asset restructuring in the new energy segment were further improved to enhance advantages in operations and management

   After the new energy segment was separated from New China Water (Nanjing) Renewable Resources Investment Co., Ltd., Shenzhen City New China Water Environmental Technology Limited acted as an operations centre in the new energy segment for strengthening the integration of favourable resources as well as the optimization of the operation and management of the Group to further increase the financing capacity of this company to combine the industry with funds so that the overall operation efficiency and operating efficiency of this company could be raised systematically to provide an incentive for the key team, which enabled the Group to grow steadily, quickly and healthily.

3. The glass recycling business operated smoothly with an enormous space to expand.

   After we worked hard for more than a year, the Hong Kong Glass Project was operating smoothly with some progress made in the field of solid waste disposal in Hong Kong. At present, we have factory buildings with area of more than 4,000 square metres. The project is the first qualified glass collection and processing centre under the Hong Kong Environmental Protection Department's project, and the "Happy Glass Garden", an environmental education base, acting as an excellent platform for the people of Hong Kong as well as primary and secondary school students to learn and promote environmental protection. At the beginning of the project, we worked with the Nano and Advanced Materials Institute ("NAMI") in Hong Kong to develop anti-bacterial nano glass tiles for use in grounds and walls at homes and shopping centres. We had received two utility model patents in China, which attracted much attention and applause from the industry. We also expanded the glass fragment export business, making us the first company in Hong Kong to have successfully exported separating glass fragments.

III. The corporate culture was stepped up by building a corporate culture featuring the characteristics of China Water Industry Group

An advanced corporate culture is the common value both the Group and the Company are pursuing. It is a spiritual impetus that pushes the Group and the Company to grow better and faster. It forms an integral part of the core competitiveness of the Group and the Company. In our in-house magazine "The Sound of Water", we provide an update on the senior staff of the Company, announce company policies, promote corporate culture, tell the top stories about individual employees and publish selected good poetries, prose, informal essays and other articles composed by staff. The magazine acts as a platform for the staff to expand their strengths and showcase their talent, and for providing training and education. At the annual seminar on "The Sound of Water", we maintain a unified internal culture across project companies, the Group and the Company, enhance the cohesion and centripetal force of the Group and the Company, and build an image of the Group and the Company as a whole. Moreover, grassroots companies are encouraged to cultivate and create a unique culture combined with their own situations to bring the corporate culture in line with the sound and rapid development of the Company in a harmonious way, and to provide the Group and the Company with a strong cultural support.

IV. Focused on corporate propaganda for comprehensively enhancing the corporate public image.

We enthusiastically participated in the environmental exhibitions and forums in Hong Kong and Macau, where we were interviewed and covered by a number of well-known media. We also received a number of professional awards and honours, such as the title of "EcoChallenger" under the BOCHK Corporate Environmental Leadership Awards, both in recognition of our efforts we have made and as an ongoing encouragement to us to make another achievement in environmental protection.

Prospects and Plans

2017 will be a year of diversified development for the Group because the Group has the new energy and the real estate development segments in addition to the urban water supply and sewage treatment segments. The abundant internal resources and capital platform will provide a stronger impetus for the rapid development of the Group.

I. *Open up the conventional water service segment aggressively and continue to develop quality water projects*

The urban water supply business has been the Group's principal business over the years. With this business, water quality control is kept stable and the safety of urban water supply is effectively assured. Our commitment is to provide quality services for urban residents. Water treatment will reach a pinnacle during the period of the "13th Five-year Plan". With accelerating urbanization process and increasing year-by-year urban water consumption in China, there will be an enormous market demand for water supply and sewage treatment in China, giving the water industry an increasingly prominent position. Sales revenue from the water production and supply sectors is estimated at more than RMB300 billion by 2021. Moreover, the "Several Opinions of the State Council on Encouraging and Guiding the Healthy Development of Private Investment" (Guofa.2010.No. 13) specified that "the private sector shall be encouraged to invest more capital in the reorganization and restructuring of municipal public enterprises. Qualified municipal utilities projects may be operated with a market-oriented business approach by transferring the property rights or the operating rights to the private sector"..... "to further deepen the system reform of municipal public utilities; to bring in a market competition mechanism aggressively; and to promote a tender system vigorously for investing in and operating municipal public utilities; and to establish a sound franchise system for municipal public utilities". For these reasons, the key to the further development of the water service sector is the availability of specialized and socialized capital resources. Between 2002 and 2009, the average annual growth rate of the prices of tap water for residential purposes in 36 Chinese key cities was 4.69%, and the average annual growth rate of sewage treatment fees was 11.9%. The experience of some overseas successful urban water suppliers suggests that the household water fees should be well-matched with electricity bills, and that the price-demand curve of residents' water consumption should strike a balance if water expenses account for about 4% of personal income. However, there is a wide gap between the current water and electricity expenses in Chinese urban households (electricity expenses are several times higher than water expenses), and water expenses account for only 1.2% of personal income. In the "Study on the Water Shortage Problem in Urban and Rural Areas", the Ministry of Construction pointed out that in order to encourage residents to conserve water, it was appropriate to set the water-cost-to-income ratio at 2.5% -3%. Hence, there is a larger space for water rates to rise. Whether in terms of the scarcity of water resources in China, or the demand from water service companies to make a reasonable profit so as to improve the quality of services, or the comparison with international water tariff standards, there is still a larger space for the current water rates to rise in China. For us, this is big, good news to grow the water service segment. We will expand the water service segment aggressively, keep improving the management mechanism, seek progress while maintaining stability and continue to acquire quality water projects.

On 17 February 2017, Mingyue Mountain Fangke successfully entered into a sewage treatment plant BOT cooperation agreement with Mingyueshan Spa Management Committee for the joint contribution of capital to the construction of a sewage treatment plant project in Wentang by stages. The project will have a planned capacity of 40,000 tons/day and cover an area of 60 acres. The project construction will ensure that quality water resources in Wentang will not be contaminated, will further increase the utilization of water resources to enhance the image of Mingyueshan as a tourist spot, and generate a stable investment return in future.

II. As the development of new energy segment enters the fifth year, a pattern of the development of the sector has been seen with a promising future.

The environmental problem in China is similar to that in Western industrial developed countries in the 1970s. The extensive economic growth model characterized by high levels of emission, energy consumption and pollution has created a tremendous pressure on the resources and the environment. To transform this model into a resource-saving and environment-friendly economic growth model has become the only way for China to maintain its rapid economic growth in the future. For this reason, the Chinese government is stepping up financial commitment to the environmental protection industry. Following the promulgation of the Air Pollution Prevention and Control Action Plan, Water Pollution Prevention and Control Action Plan as well as Soil Pollution Prevention and Control Action Plan, financial commitment to environmental protection is expected to rise to around RMB2 trillion annually during the period of the "13th Five-year Plan". As the impact of solid waste on the environment is emerging progressively, the solid waste treatment industry in China will enter a rapid growth period following the sewage and waste gas treatment industries, with an average annual growth rate expected to exceed 30% to usher in a golden period. We, as a domestic environmental company in China, will also have an enormous space for development in the future. By leveraging the academician workstation set up as a technical support in the Company by the Group together with Chinese Academy of Engineering's academician Zhang Qisheng and Chinese Academy of Sciences' academician Chen Yong, we have studied, developed and acquired various cutting-edge technologies such as primary household garbage separation technology, mineralized refuse separation technology, pyrolysi gasification power generation technology using primary garbage and mineralized refuse, and landfill gas technology using agricultural and forestry residues and urban wood junk in pyrolysis gasification power cogeneration for the treatment of low-grade waste combined with coal. In the planning and construction of various pilot projects such as "the landfill gas project using agricultural and forestry residues in pyrolysis gasification power cogeneration for the treatment of low-grade waste combined with coal in Chenzhou, Hunan", "the landfill gas project using agricultural and forestry residues in pyrolysis gasification power cogeneration for the treatment of urban wood junk combined with coal in Jiaozishan, Nanjing" and "the separation and pyrolysis gasification power generation project using primary household garbage and mineralized refuse in Hexian, Anhui", we will vigorously push for the development of the new energy segment in the next three years with our determined development model and concept. Upon completion of the existing biogas power generation and biogas purification projects, we will develop biomass power generation projects, pyrolysis gasification power generation projects and power generation projects using urban solid waste (garden, agricultural, forestry and furniture wood residues, etc.) from dumpsites to reduce the amount of waste truly for reducing carbon emissions and increasing annual revenue. It is initially expected that our total installed capacity will exceed 200 megawatts in the next three years. After 2018, our total estimated net operating profit will exceed RMB500 million; and our annual forecast net profit will exceed RMB200 million. In the next decade, the demonstration effect of these projects will expand a huge market space for us in the field of household garbage disposal, agricultural and forestry residue disposal and pyrolysis gasification.

III. Invest in a flexible way and expand more real estate development projects

In 2016, the Group successfully acquired the land-use rights to two sites in Nanjing and Huizhou, China, at preferential prices, and planned to use the sites for an R&D centre, office buildings and property development which includes property sales and/or lease. The pre-planning and design has been carried out on schedule. Having seen the favourable trend in real estate development in Nanjing and Huizhou, we expect property development to generate positive and stable income stream for the Group.

IV. Place emphasis on two overseas business projects to build a new growth engine

1. The Hong Kong Glass Bottle Project is one of the key projects of concern to the Group. The development and impact of this project on the environmental protection industry in Hong Kong should not be underestimated.

2. We will aggressively expand the urban solid waste business in Southeast Asian countries and seize the strategic opportunities arising from China's "One Belt, One Road" initiative. The garbage problem is getting serious in Southeast Asian countries with the rapidly growing economy and population in these countries. More than 50% of garbage are stacked at open areas, most of which are disposed without any treatment. As the international community is working hard to promote sustainability and the "3R" concept, developing countries in Southeast Asia have begun to realize the importance of resource recycling, but their solid waste industries are mostly in their infancies or initial stages. They have an urgent need to work together with key enterprises run by conglomerates with relevant management experience and technical equipment on project development. This has offered us a good business opportunity.

   After the idea of "building a beautiful China" was proposed at the 18th Third Plenary Session, the importance of the environmental protection industry has become increasingly prominent. As the Chinese government is introducing more preferential policies for the urban water supply, sewage, solid waste and new energy sectors, a favourable situation has almost been created, where the Chinese government is stepping up supervision as well as improving policies and regulations, while investment and business development are growing. We will seize this rare opportunity firmly to further enhance and expand our own experiences and advantages in the area of operations management and expertise, strive to grasp and create more business opportunities by making use of the Group's diversified development strategy, and enhance efficiency in the management. The Group's revenue and profit for 2017 are anticipated to have a remarkable growth as compared with 2016.

   Lastly, I would like to take this opportunity to express my heartfelt gratitude, on behalf of the Board of Directors, to general investors for offering their tremendous support to the Group over the past one year, as well as to the management and all the staff for working hard and striving for success for the Group. We will remain committed to maintaining the Group's long-term growth and stable performance, and look forward to sharing the Group's achievements with you in the next challenging year.

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.

PURCHASES, REDEMPTIONS OR SALES OF COMPANY'S LISTED SECURITIES

There wee no purchases, redemptions or sales of the Company's listed securities by the Company or any of its subsidiaries during the year.

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 2016.

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 2016. The Audit Committee comprises three members including Mr. Wong Siu Keung, Joe, Mr. Guo Chao Tian and Ms. Qiu Na.

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 2016 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 AGM 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 2017

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. Wong Siu Keung, Joe, Mr. Guo Chao Tian and Ms. Qiu Na, all being independent non-executive Directors.

* *For identification purpose only*