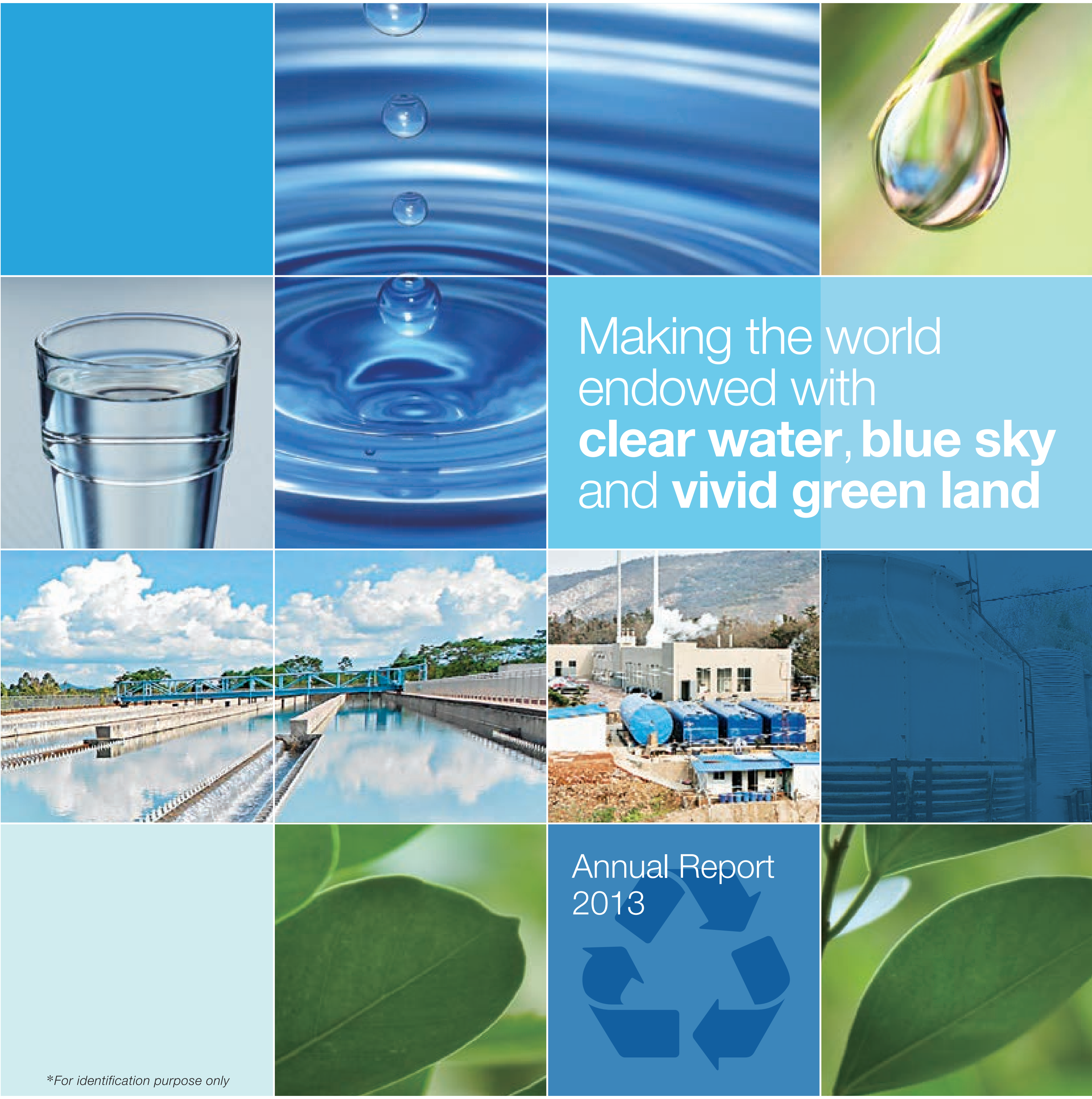
中國水業集團有限公司*

CHINA WATER INDUSTRY GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 1129



Making the world endowed with **clear water, blue sky** and **vivid green land**

Annual Report 2013

**For identification purpose only*

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Wang De Yin *(Chairman and Chief Executive Officer)*
Mr. Lin Yue Hui
Mr. Liu Feng
Ms. Chu Yin Yin, Georgiana
Ms. Deng Xiao Ting

Independent Non-Executive Directors

Mr. Guo Chao Tian
Mr. Li Jian Jun
Mr. Wong Siu Keung, Joe

AUDIT COMMITTEE

Mr. Wong Siu Keung, Joe *(Chairman)*
Mr. Li Jian Jun
Mr. Guo Chao Tian

REMUNERATION COMMITTEE

Mr. Wong Siu Keung, Joe *(Chairman)*
Mr. Li Jian Jun
Mr. Liu Feng

NOMINATION COMMITTEE

Mr. Wang De Yin *(Chairman)*
Mr. Wong Siu Keung, Joe
Mr. Li Jian Jun

INVESTMENT COMMITTEE

Mr. Wang De Yin *(Chairman)*
Mr. Liu Feng
Mr. Tang Hui Ping, Paul
Mr. Lin Yue Hui
Mr. Liu Hui Quan

COMPANY SECRETARY

Ms. Chu Yin Yin, Georgiana

PRINCIPAL BANKERS

PRC

Agricultural Bank of China
Bank of China
Industrial and Commercial Bank of China Limited

Hong Kong

Bank of China (Hong Kong) Limited
DBS Bank (Hong Kong) Limited
Chiyu Banking Corporation Limited
The Hongkong and Shanghai
Banking Corporation Limited
Hang Seng Bank Limited

LEGAL ADVISERS TO HONG KONG LAWS

Reed Smith Richards Butler
Robertsons Solicitors & Notaries
Johnny K.K. Leung & Co.
William W. L. Fan & Company

AS TO CAYMAN ISLANDS LAWS

Conyers Dill & Pearman

COMPLIANCE ADVISOR

Halcyon Capital Limited

AUDITORS

Crowe Horwath (HK) CPA Limited

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR TRANSFER OFFICE

Union Registrars Limited
18/F., Fook Lee Commercial Centre, Town Place
33 Lockhart Road
Wanchai, Hong Kong

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 1207, 12th Floor
West Tower, Shun Tak Centre
168-200 Connaught Road Central
Sheung Wan, Hong Kong

CONTACTS

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WEBSITE

www.chinawaterind.com

STOCK

1129

CHAIRMAN'S STATEMENT

2013 was a successful year for the Group. Not only did we achieve a stronger performance growth in the traditional water supply and sewage treatment and related businesses, we have also successfully entered a new energy industry, waste-to-energy. The achievements have laid a sound foundation for the future development of the Company.

The management formulated a 3-year development plan for the Company at the end of 2011:

2012 Clean-up and rectification, laying a firm foundation, strengthening management, preserving profits.

2013 Expanding business and coverage, increasing profitability, maintaining growth.

2014 Innovative development, economies of scale, enhancing the brand image, sustainability.

While we continued to clear up long-standing problems left by the Company in 2013, we also needed to ensure satisfactory growth in the Company's performance. We are proud to say that we perfectly attained this goal of performance growth.

Yingtan Water Supply Co., Ltd* ("Yingtan Water") 鷹潭市供水有限公司 has always been an outstanding member of the Group, which successfully completed the adjustment of the water tariffs and put it into practice in 2013. The Company achieved excellent performance on its waterworks business. Apart from the investment in waterworks, the Company is also accomplished in investments in other aspects, such as property development and small amount guaranteed loans which have yielded generous return.

Danzhou Qingyuan Water Industry Company Limited* ("Danzhou Qingyuan") 儋州清源水務有限公司 had been a burden to the Group. Due to historical debts, Danzhou Qingyuan was once insolvent and on the verge of bankruptcy. Through our efforts, debts have been successfully restructured and all bank loans have been settled. Radical changes took place in Danzhou Qingyuan. In 2013, Danzhou Qingyuan was renamed Hainan Danzhou Tap Water Company Limited* ("Danzhou Tap Water") 海南儋州自來水有限公司 and completed the adjustment of the price of water tariffs. It has now become one of the outstanding members of the Group and will have a better performance in the future.

According to the requirements for expansion in business and coverage, we have been seeking new projects actively. After repeated verifications, the Group has decided that the integrated treatment of power generation from garbage landfill gas and urban refuse would be the next major investment made by the Company. The official acquisition of the waste-to-power project of Nanjing Feng Shang New Technology Limited Liability Company* ("Nanjing Feng Shang") 南京豐尚新能源科技有限公司 in 2013 marked the start of the Group's business in the field of solid waste treatment.

In 2013, the Group established the headquarter in Nanjing and incorporated a foreign-invested company named the Greenspring (Nanjing) Recycling Resources Investment Co., Ltd. ("Greenspring") 青泓(南京)再生資源投資有限公司. The Company will be the major investment of the new energy company of the Group in the future and will carry out resources integration in respect of the landfill gas industry with the aim of expanding and consolidating the Company.

Greenspring has already signed a contract for the acquisition of 88% equity interest of Shenzhen City Li Sai Industrial Development Limited* ("Shenzhen Li Sai") 深圳市利賽實業發展有限公司. In 2014, we will utilize garbage resources in Shenzhen Xia Ping Landfill by collecting garbage landfill gas in order to produce compressed natural gas for vehicles or units which make use of natural gas.

Changsha garbage landfill gas project will be a major project of the Group. Changsha Heimifeng Garbage Landfill is the only garbage landfill in Changsha. Refuse being dumped amounts to over 5,000 tonne each day. The Group will cooperate with Hunan Huiming Environmental Energy Limited* ("Hunan Huiming") 湖南惠明環保能源有限公司 in maintaining the existing 10MW of generating capacity while launching the compressed natural gas project. It is hoped that the cooperation will bring good performance in 2014.

Regarding the integrated utilization of garbage resources, we also signed a contract for the acquisition of the Hunan Zhuzhou and Liuyang waste-to-power and natural gas projects. The Group will continue to merge and acquire or invest in new waste-to-power or compressed natural gas projects. Our goal is to become the leading enterprise in terms of integrated utilization of garbage resources within two years.

Landfill gas which could generate power with zero emission, is a renewable and recyclable resource beneficial to both the nation and its people and received great support from the nation. Following the launch of the domestic carbon emission trading, the revenue from waste-to-power would increase further and further. Therefore, it is likely that waste-to-power will become the new profit growth point of the Group. Our plan is that in 2014 the profit from waste-to-power would be able to account for 40% of the total profit of the Company and 65% in 2015.

In 2014, subsidiaries of the Group, including Yichun Water Industry Co., Ltd* ("Yichun Water") 宜春市供水有限公司 and Yichun Fangke Sewage Treatment Company Limited* 宜春市方科污水處理有限公司, may adjust the water tariffs and sewage treatment fees. There shall be continued growth in the Group's water supply and sewage water treatment business.

Currently Jinan Hongquan Water Production Co., Ltd.* ("Jinan Hongquan"), 濟南泓泉制水有限公司 and Anhui Dang Shan Water Industry Company Limited* 安徽省碭山水業有限公司, which have sustained loss over a long period of time, are still a burden to the Group. Due to long-standing problems, it is very difficult to operate them. We have reached a consensus with the Government which is willing to make an acquisition. The issue is under negotiation. Nonetheless, we have not yet reached any agreement with the Government. We expect that the Government would complete the acquisition in the first half of 2014. If this acquisition could be completed, the Group's high-quality assets would increase and the operation would be better.

In 2014, our mission is to achieve greater economies of scale and to expand the scale of the integrated utilization of garbage resources through resources integration, mergers and acquisitions as well as cooperation in order to ensure that every project is profitable and that every project will bring continued growth.

"Smog" is the major concern in China in 2013 and the key word which is the most frequently mentioned by Chinese. The Report on the Work of the Government delivered by Premier Li Keqiang introduces eight measures regarding environmental work and proposes more supporting measures in terms of new energies. These measures will offer the Group more opportunities for our future development and have enhanced our confidence in the investments in environmentally friendly projects and new energies and the relevant development. Therefore, the Group has a new vision of "making the world endowed with clean water, blue sky and vivid green land".

Wang De Yin
Chairman and Chief Executive Officer

Hong Kong, 27 March 2014

* for identification purposes only

FINANCIAL PERFORMANCE

RESULTS

Financial Results

The Group recorded a consolidated net profit of HK$105.96 million for the year ended 31 December 2013. In comparison with the same period of year 2012 with a consolidated net profit of HK$45.92 million, there is a significant increase of HK$60.04 million. The board of directors ("Board") considers that the significant increase was mainly attributable to: (i) substantial growth in the gross profit primarily from the construction services for water supply; (ii) waiver of loan interest from a lender; and (iii) reduction in the imputed interest charged on the convertible bonds.

Revenue and Gross Profit

The Group had achieved a substantial growth in revenue and gross profit for the year 2013, which amounted to HK$510.96 million and HK$200.69 million respectively. These represent a growth of 55.83% in revenue and 54.39% in gross profit from the previous year. The substantial growth in revenue and gross profit were contributed by the increase of construction services for water supply. The main contributors were Yichun Water and Yingtan Water. Collectively, they accounted for 59.85% of the revenue and 74.83% of the gross profit. The summary of revenue and gross profit is as follows:

	Revenue				**Gross Profit**			
	2013		2012		**2013**		2012	
	HK$'M	**%**	*HK$'M*	%	***HK$'M***	**%**	*HK$'M*	%
Water supply business	**133.60**	**26.15**	118.90	36.26	**49.32**	**24.58**	43.71	33.63
Sewage treatment business	**47.03**	**9.20**	38.00	11.59	**23.07**	**11.50**	14.68	11.29
Construction services business	**324.66**	**63.54**	170.98	52.15	**124.42**	**61.99**	71.59	55.08
Biogas power generation business	**5.67**	**1.11**	–	–	**3.88**	**1.93**	–	–
Total	**510.96**	**100**	327.88	100	**200.69**	**100**	129.98	100

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Water supply business

The water supply business was supported by 6 water supply plants located in the Provinces of Jiangxi, Auhui, Shandong and Hainan. The daily aggregate water supply capacity was approximately 1.94 million tonne (including the capacity of 1.50 million tonne of an associated company) generating an annual revenue of HK$133.60 million, representing 26.15% of the Group's total revenue in 2013. The gross profit ratio was 36.92% (2012: 36.76%). The rates for the water supply ranged from HK$1.62 to HK$2.31 per tonne. During the year, Danzhou Tap Water and Yingtan Water were also approved by the relevant government authorities to increase water tariffs.

Sewage treatment business

The sewage treatment business was supported by 3 treatment plants located in the Provinces of Jiangxi, Guangdong and Shandong. The daily aggregate sewage disposal capacity was approximately 130,000 tonne generating an annual revenue of HK$47.03 million, representing 9.20% of the Group's total revenue. The gross profit ratio was 49.05% (2012: 38.63%). The rates for sewage treatment ranged from HK$0.70 to HK$1.65 per tonne.

Construction services business for water supply and sewage treatment infrastructure

Construction services included water meter installation, and pipeline construction and repair. These were the Group's major sources of revenue contributing HK$324.66 million, representing 63.54% of the Group's annual revenue. The gross profit ratio was 38.32% (2012: 41.87%).

Biogas power generation business

In recent years, green economy and environmental protection have become the core focuses of China's future economic reforms and long-term development. To capture these potential opportunities, the Group had been considering a new market expansion strategy by actively exploring in the areas of environmental friendly renewable energy businesses. During the year, the Group successfully acquired Nanjing Feng Shang which is mainly engaged in the generation of biogas power from domestic waste, and the exploitation, generation and sales of renewable energy. The facilities of Nanjing Feng Shang are designed to process approximately 0.58 million tonne of household waste annually. The existing biogas extraction from the household waste is approximately 14.53 million m^3 annually, which in turn can generate approximately 26.44 million kilowatt of on-grid electricity. The average electricity rate is RMB0.636 per kilowatt. As the acquisition of Nanjing Feng Shang was completed on 30 October 2013, there were only two months of revenue and gross profit contribution to the Group. The revenue of HK$5.67 million was from selling electricity to a provincial power grid company and receiving tariff adjustment from a relevant government authority. The gross profit ratio was 68.43% in 2013 (2012: Nil).

Other Operating Income

For the year ended 31 December 2013, other operating income was HK$40.47 million (2012: HK$76.53 million). The decrease of HK$36.06 million was mainly due to wavier of the government loan and underlying interest of HK$37.77 million granted by the Hainan Province Finance Bureau and Danzhou Province Finance Bureau was recognised in 2012. The income in 2013 included mainly interest income of HK$26.10 million, income of government subsidy of HK$3.22 million, gain on disposal of fixed assets of HK$2.57 million, service handling fees of HK$1.21 million and rental income of HK$1.32 million from investment property.

Wavier of loan interest and interest payables

For the year ended 31 December 2013, the waiver of loan interest recorded HK$59.75 million, representing an increase of HK$55.53 million from HK$4.22 million for corresponding year of 2012. The increase was due to Agricultural Bank of China Danzhou Branch ("ABC Bank") agreed to waive a substantial portion of the interest payment and release the pledged assets once the Group settles the aggregate amount of the principal and the remaining portion of the interest payment in the amount of approximately RMB31.38 million. The aforesaid waived interest of HK$59.75 million was recorded as an income in 2013. Details of which are provided in the section headed "Litigations and arbitration" of this report.

Reversal of impairment loss recognized on trade and other receivables

The reversal of impairment losses of HK$21.07 million comprised HK$19.08 million on loan receivables (2012: HK$14.39 million) and HK$1.99 million on trade and other receivables (2012: HK$2.42 million). In October 2013, the Company agreed to take one-half haircut on the debt plus any accrued interests owed by Birmingham International Holdings Limited (the "BIHL"). The Company recovered a total of HK$27 million (representing loans receivable of HK$19.08 million and interest income of HK$7.92 million) in February 2014 pursuant to the settlement agreement. As such, the Company reversed the impairment loss of HK$19.08 million which had been provided in previous years. Details of which are provided in the section headed "Repayment of Loan by BIHL" of this report.

Gain on disposal of available-for-sale investments

Included in the available-for-sale investments were the equity investment in three listed equity securities in Hong Kong. During the year, the disposal of these three listed equity securities were on-market transactions through The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and recorded a gain of HK$6.82 million (2012: loss of HK$1.55 million).

Selling and distribution costs and administrative expenses

Selling and distribution costs together with administrative expenses were collectively increased by HK$28.59 million to HK$123.36 million (2012: HK$94.77 million). The rise was mainly due to the increase in number of PRC staff, increment of PRC staff salaries and related benefits and depreciation. These expenses in 2013 mainly consisted of staff cost including directors' emoluments of HK$66.41 million, depreciation and amortisation of HK$12.53 million, entertainment and travelling of HK$10.37 million, legal and professional fees of HK$5.11 million, office supplies of HK$4.32 million, motor car expenses of HK$3.28 million and rent and rates of HK$3.34 million.

Finance costs

The finance costs of the Group were HK$15.35 million, representing a decrease of HK$16.39 million from HK$31.74 million for the same period of last year. The decrease was due to the reduction of imputed interest charged on the convertible bonds ("CB"), since the old CB was fully converted in 2012, and the new CB of Series A bonds ("Series A Bonds") bearing interest at 7.5% per annum was issued on 30 October 2013, resulting in only 2 months of imputed interest for the year. The finance costs for the year were mainly contributed by the imputed interest of CB of HK$3.48 million and the interest of HK$14.14 million on loans, net of interest capitalised of HK$2.27 million included in construction in progress.

Impairment loss recognized on trade and other receivables

Impairment loss of HK$30.59 million (2012: HK$4.36 million) was mainly provided for loan receivable of HK$28 million advanced to Top Vision Management Limited ("Top Vision"). As advised by the legal counsels, the possibility of the recovery of these loan receivables through taken the legal actions against Top Vision are thin and remote, thus a further impairment loss of approximately HK$28 million has been provided in 2013. Details of which are provided in the section headed "Litigations and arbitration" of this report.

Share of results from associates

The Group had two associated companies, which held 35% equity interests in Jinan Hongquan and 10% equity interests in Yu Jiang Hui Min Small-sum Loan Company Limited* ("Yu Jiang Hui Min") 余江惠民小額貸款股份有限公司. As at 31 December 2013, the Group shared the loss results of HK$2.27 million (2012: loss of HK$5.85 million) which was mainly from the loss of HK$3.46 million from Jinan Hongquan and the profit of HK$1.19 million from Yu Jiang Hui Min.

Income tax

For the year ended 31 December 2013, income tax had increased substantially by HK$10.70 million to HK$46.70 million (2012: HK$36.00 million). Certain subsidiaries in the PRC enjoyed the tax concession benefits for the exemption to pay PRC income tax for three years from the first profit making year, followed by a 50% reduction for the next three years. For the year ended 2013 and 2012, the PRC standard income tax rate was at 25%. The expiration of the full tax exemption made certain subsidiaries in the PRC had started to pay the PRC income tax and the increase of operating profits were also leading to the rise of income tax.

Profit attributable to Owners of the Company

For the year ended 31 December 2013, profit attributable to owners of the Company was approximately HK$61.42 million (2012: HK$22.02 million), an increase of HK$39.40 million due to substantial growth in operating results of the businesses and income from waiver of loan interest contributed by an indirect wholly-owned subsidiary of the Company.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2013, the Group recorded cash and bank balances including cash held at financial institutions of HK$250.56 million (compared with HK$239.25 million on 31 December 2012). There was only a slight increase of HK$11.31 million even though the Company issued the Series A Bonds and experienced the significant business growth in the construction services for water supply. The proceeds from the Series A Bonds and the business income were mainly utilized for the financing and investing activities including (i) the repayment of loan owed to ABC Bank, (ii) the establishment of property development company and investment company in Yingtan City and Nanjing respectively, (iii) the acquisition of new businesses and (iv) the investment in equity securities. The cash and bank balances were denominated in Hong Kong dollars and Renminbi.

The net current liabilities for the Group in 2013 were HK$39.23 million (2012: net current assets of HK$40.87 million). The current ratio (current assets over current liabilities) was 0.91 times (2012: 1.11 times). The deteriorative current liquidity position of the Group was mainly attributable to the issuance of the Series A Bonds and the increase of cash used in the financing and investing activities as stated above. The current portion of the Series A Bonds amounting to HK$107.35 million represented 24.80% of the total current liabilities. To meet the debt obligations, the Board had been considering various fund raising alternatives to strengthen the capital base of the Company. The Board is confident that the Group will be able to meet its financial obligation as and when they fall due and has sufficient working capital to support future operational needs.

Net asset value was HK$826.50 million (2012: HK$684.85 million). Net asset value per share was HK$0.74 (2012: HK$0.62), increased by 19.35% from the end of 2012.

The Group's consolidated non-current assets increased by HK$254.75 million to HK$1,076.91 million (2012: HK$822.16 million). The increase was mainly attributable to (i) acquisition of Nanjing Feng Shang, (ii) acquisition of concession intangible assets (iii) prepaid lease payments relating to the land use rights over a parcel of land in Yingtan, Jiangxi Province, the PRC, and (iv) investment in equity securities.

The total liabilities of the Group as at 31 December 2013 were HK$644.01 million (compared with HK$537.63 million on 31 December 2012). The increase was mainly due to the issuance of the Series A Bonds in October 2013. The liabilities mainly comprised of bank and other borrowings of HK$187.17 million (2012: HK$169.53 million), Series A Bonds of HK$107.35 million (2012: Nil), government grants of HK$95.98 million (2012: HK$90.32 million) and trade and other payables of HK$157.46 million (2012: HK$206.99 million). They were mainly denominated in Renminbi.

As at 31 December 2013, the Group's total bank and other borrowings increased to HK$187.17 million (2012: HK$169.53 million), mainly due to the working capital requirement of operations. For the maturity profile, refer to the table below:

Debt Analysis

	31 December 2013		31 December 2012	
	HK$'000	%	*HK$'000*	%
Classified by maturity				
– repayable within one year				
Bank borrowings	**42,116**	**22.50**	45,953	27.11
Other loans	**65,722**	**35.11**	54,473	32.13
	107,838	**57.61**	100,426	59.24
Classified by maturity				
– repayable more than one year				
Bank borrowings	**26,710**	**14.27**	34,532	20.37
Other loans	**52,619**	**28.12**	34,572	20.39
	79,329	**42.39**	69,104	40.76
Total bank and other borrowings	**187,167**	**100**	169,530	100
Classified by type of loans				
Secured	**75,186**	**40.17**	86,652	51.11
Unsecured	**111,981**	**59.83**	82,878	48.89
	187,167	**100**	169,530	100
Classified by type of interest				
Fixed rate	**77,472**	**41.39**	57,334	33.82
Variable-rate	**61,898**	**33.07**	88,497	52.20
Interest free rate	**47,797**	**25.54**	23,699	13.98
	187,167	**100**	169,530	100

The Group's gearing ratio as at 31 December 2013 was 43.80% (2012: 43.98%). The ratio was calculated by dividing total liabilities of HK$644.01 million over total assets of the Group of HK$1,470.51 million.

Trade and other receivables

As at 31 December 2013, the Group's trade and other receivables were approximately HK$108.36 million (31 December 2012: HK$89.11 million). These comprised of: (i) trade receivables of HK$33.19 million, (ii) other receivables of HK$29.18 million, (iii) loan receivables of HK$27 million, and (iv) deposits and prepayments of HK$19.00 million. During the year, the trade receivables increased by HK$11.48 million to HK$33.19 million (31 December 2012: HK$21.71 million), which was mainly due to the increase of operating activities in the construction services business. The average turnover period of the trade receivables as at 31 December 2013 were 25 days (2012: 21 days). The Group allows a credit period of 30 to 180 days to its customers. The average turnover period of the trade receivables were shorter than this credit period. The deposits and prepayments decreased by HK$16.20 million to HK$19.00 million (2012: HK$35.20 million) mainly due to the deposits refunded by the relevant local government in the PRC for unsuccessful tender bid. Included in the deposits was mainly tender deposits paid by Jiangxi Shunda Construction Engineering Limited* 江西省順大建築安裝工程有限公司 ("Jiangxi Shunda") for bidding the construction projects of approximately HK$12.72 million (2012: HK$29.60 million). The loan receivable of HK$27 million due from BIHL (2012: HK$28 million) was paid in February 2014.

Trade and other payables

As at 31 December 2013, the Group's trade and other payables were approximately HK$157.46 million (31 December 2012: HK$206.99 million). The decrease was mainly caused by repayment and waiver of interest payables in 2013. The credit terms of trade payables vary according to the terms agreed with different suppliers.

CAPITAL RAISING AND USE OF PROCEEDS

On 14 December 2012, the Company entered into the top-up placing and subscription agreement with existing shareholder and placing agent, pursuant to which, the Company had through placing agent to place out 138,000,000 new ordinary shares at placing price of HK$0.51 each to independent third parties. The transaction was completed on 19 December 2012 and 27 December 2012. The net proceeds of HK$68.29 million was intended to use as to approximately 80% for future business development and as to approximately 20% for general working capital of the Group respectively. During the year, the aforesaid net proceeds has been utilized by the Group as to (i) approximately HK$50.71 million for the acquisition of the entire share equity interest in Nanjing Feng Shang as announced by the Company on 5 July 2013 and (ii) approximately HK$17.58 million for general working capital of the Group including office operating expenses and repayment of debts.

On 16 October 2013, the Company and Prosper Talent Limited, the Subscriber entered into the Subscription Agreement in respect of the issue of and subscription for the CB to be issued in two tranches in an aggregate principal amount of HK$200 million in cash, comprising of the Series A Bonds and the Series B Bonds. Assuming full conversion of the CB at the initial conversion price of HK$1.65 per share, a total of 121,212,120 shares will be allotted and issued under the general mandate. The purpose of use of proceed is for investment in, establishment and operation of water supply companies, sewage treatment companies and solid waste treatment companies only. Series A Bonds and Series B Bonds were issued on 30 October 2013 and 14 January 2014 respectively. The maturity date of CB will be expired of one year from the date of issue of the CB. Thus, the maturity falling for Series A Bonds and Series B Bonds will be due on 30 October 2014 and 14 January 2015 respectively, bears annual interest at 7.5% and, on maturity, the bond will be redeemed at an aggregate price of 100% of the outstanding principal amount plus an interest of 12% per annum, less the interest amount already paid on the CB. The net proceeds of approximately HK$197 million have been raised from the issue of the CB. There was approximately HK$66.60 million utilised by the Company as to (i) approximately HK$46.80 million, for the establishment of a wholly-owned investment company namely Greenspring in Nanjing to acquire waste power generation business; and (ii) approximately HK$19.80 million for the increase in the registered share capital of a wholly-owned subsidiary of the Company in Shenzhen which engages in the business of water supply and sewage treatment. The Company intends to use the unutilized net proceeds of HK$130.40 million as to (a) the approximately HK$76.71 million for the proposed acquisition of 88% of the share equity interest of Shenzhen Li Sai as announced by the Company on 23 January 2014; and (b) approximately of HK$53.69 million for the proposed acquisitions including Hunan Huiming Environmental Technology Limited* (the "Huiming Technology") (湖南惠明環境科技有限公司), Hunan Feng Ming Energy Technology Limited* (the "Feng Ming Technology") (湖南豐銘能源科技有限公司) and the formation of JV Company in Changsha, PRC as announced by the Company on 21 March 2014. The unutilized net proceeds are held in bank for future use as intend. Up to the report date, none of the CB is converted into shares by the Subscriber.

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

During the year, the Group incurred capital expenditures amounting to HK$102.37 million (2012: HK$31.01 million) for acquisition of concession intangible assets.

LITIGATIONS AND ARBITRATION

i. Technostore Limited (in liquidation), a subsidiary of the Company

On 30 May 2007, a Petition was filed under sections 168A and 177 of the Company Ordinance (Cap. 32) to wind-up Technostore Limited ("Technostore"), a company in which the Company held 50.01% of the issued shares. The Petition was commenced by Mr. Mao Chi Fai ("Mr. Mao"), the minority shareholder of Technostore holding 49.99% of the issued shares. Following court hearings regarding the winding-up proceeding in the preceding year, on 29 August 2008, the court made an order to appoint Kenny Tam & Company ("Liquidator"), Certified Public Accountant as a liquidator of Technostore and Happy Hour Limited and Mr. Mao to become members in the committee of inspection. In October 2009, all stocks of Technostore with costs valued at approximately HK$2.2 million transferred by the Official Receiver's Office to the Liquidator were disposed at the consideration of around HK$0.62 million by public tender. Preferential and ordinary dividends were distributed in November 2010. Further, a sum of less than HK$1,000 was realized from the bank accounts of Technostore. On 25 August 2011, the Liquidator indicated that no additional assets of Technostore have been realized and it anticipates that there will be no further assets for realization. The Liquidator has further indicated that it will apply to the Court for his release as the liquidator of Technostore after the determination of a validation order. On 29 February 2012, the Liquidator further advised that there was no additional assets realization since 25 August 2011. The Liquidators also advised that they are preparing an application for validation order and will file their release application pending sanction of the validation order by the Court. On 11 August 2012, the Liquidator also advised that they are in the course of preparing the application of the validation order. As at 11 August 2012, the Liquidator advised that the amount of the said validation order should be within HK$0.4 million. On 9 March 2013, the Liquidator advised that the said application of the validation order will not be pursued as there is no benefit to the creditors for taking further action on the same time. The Liquidator also advised that, as a consequence, there will be no further outstanding assets to be handled and the Liquidator will proceed to make an application to the court for his release. As at 16 August 2013, the Liquidator informed the Company that it is presently not in position to make an application to the High Court to release the duty of Liquidator as the necessary documents from Mr. Mao not yet to receive. On 30 January 2014, advised by the Liquidator that the High Court will approve the application of releasing Liquidator and dissolution of Technostore within the next three months. The directors of the Company believe that no material future outflows resources from the Group is expected and sufficient provision on assets related to TechnoStore have been provided. It is unlikely that there will be a material adverse financial impact of the Group.

ii. 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 (the "Remaining Loan Receivables") and 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, the 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"). Up to the report date, 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 will undertake recovery actions including but not limited to legal actions taken in PRC to collect the Remaining Loan Receivables. As advised by the PRC lawyer, the Final Judgment relating to the settlement of HK$35.40 million by Top Vision to Swift Surplus could not be executed in Mainland China because the Repayment Agreements stated that "Parties of the Repayment Agreements irrevocably consent that the Courts of the HKSAR will have the non-exclusive jurisdiction to solve any disputes which may be caused or are caused by the Repayment Agreements". The PRC lawyer considers that the non-exclusive jurisdiction stated in the Repayment Agreement does not comply with PRC law. Therefore, the PRC lawyer further reckons that the Final Judgment will be neither recognized nor executed by Zhaoqing Intermediate People's Court. Subsequent to the year end, the Company will undertake the arbitration in Hong Kong to chase back the Partial Payment of the Remaining Loan Receivables.

For the financial year ended 31 December 2009 and 31 December 2011, impairment loss of approximately HK$16.32 million regarding the Loan Receivables had been provided. The Board has assessed the Remaining Loan Receivables and believes that the Company will have difficulties in recovering the sums indicated through taken the legal actions against Top Vision, thus a further impairment loss of approximately HK$28 million has been provided in 2013.

iii. Super Sino Investment Limited, an indirect wholly-owned subsidiary of the Company

On 6 November 2007, the People's Government of Danzhou City and Super Sino Investment Limited (the "Super Sino") entered into net assets and liabilities transfer agreement, pursuant to which the assets and liabilities of Danzhou City Water Company* (儋州市自來水公司) ("Danzhou City Water") were transferred to Super Sino. On 26 June 2008, ABC Bank instituted proceedings with the First Intermediate People's Court of Hainan Province (the "Court") against Danzhou City Water, Super Sino, Danzhou Urban Development Corporation and the People's Government of Danzhou City regarding the abovementioned transfer of the relevant liabilities, claiming for the principal of RMB26 million and the underlying interest thereon repayable by Danzhou City Water and Super Sino. On 13 November 2009, the Court issued a civil verdict, pursuant to which Super Sino was ordered to fully repay the loan principal of RMB26 million together with the interest thereon. On 17 December 2009, the ABC Bank made an appeal to the Higher People's Court of Hainan Province seeking the fulfillment of the guarantee responsibility of Danzhou Urban Development Corporation. On 15 December 2010, Higher People's Court of Hainan Province issued the verdict, pursuant to which all the shares of Danzhou Qingyuan (formerly known as Danzhou City Water) owned by Super Sino (the "Shares") had been frozen from 15 December 2010 to 14 December 2012. On 6 December 2012, the court issued another verdict, pursuant to which the frozen period was further extended to 14 December 2013. The Company cannot transfer or dispose of the Shares during the period. According to the legal advice, the directors of the Company are of the opinion that the verdict will not impair the control of the Group over Danzhou Qingyuan due to the following reasons:

(1) Super Sino is still the legal owner of Danzhou Qingyuan from 15 December 2010 to 14 December 2013.

(2) As Danzhou Qingyuan is engaged in the business of provision of water in the PRC, it requires a special license through the approval of the various local government authorities. The procedures to change the shareholding are complicated and time consuming. As such, the change of shareholding will not materialize for the period in concern. On 28 December 2012, the Group entered into a settlement agreement (the "Settlement Agreement 1") with ABC Bank, pursuant to which, ABC Bank conditionally agreed to waive interest payment of approximately RMB60.62 million and release the pledged assets if the Group could fulfill the following conditions:

   (1) the Group has to settle the principal of RMB15 million and the litigation costs of RMB0.49 million on or before 31 December 2012; and

   (2) the Group has to settle the principal of RMB11 million and the interest of RMB4,890,000 on or before 31 December 2013.

On 28 January 2013, the Group further entered into a supplemental settlement agreement (the "Settlement Agreement 2") with ABC Bank, pursuant to which, it superseded of the conditions stated in the Settlement Agreement 1. According to Settlement Agreement 2, ABC Bank agreed to waive a substantial portion of the interest payment and release the pledged assets once the Group settle the aggregate amount of the principal and the remaining portion of the interest payment of in the amount of approximately RMB31.38 million (the "Debt") on or before 30 June 2013. On 18 April 2013, ABC Bank received moneys from the Company to settle all Debt and agreed to waive the interest payment as mentioned before. On 6 May 2013, ABC Bank submitted the application to the Court to revoke the freezing of the Shares as the Debt had been settled. On 4 June 2013, the Court had accepted the application and made a final and conclusive judgement to release the pledged assets. Following the effective of the waiver of interest payment and the release of pledged assets, the Company recorded a total amount of HK$59.75 million as an income in 2013. As the Debt has been fully settled, the Company has no further obligation and liability in respect thereof to ABC Bank.

(iv) 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:

(1) Yunnan Chaoyue Gas should pay Guangzhou Hyde the principal of RMB8.56 million and overdue interests thereon; and

(2) The arbitration fees should be borne by Yunnan Chaoyue Gas.

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. Owing to without information of the assets owned by Yunnan Chaoyue Gas and given the Repayment Plan, Kunming Court has stopped to execute the civil enforcement. Notwithstanding, the Company has reserved its right to petition the Kunming Court to resume the enforcement proceeding once locating any assets owned by Yunnan Chaoyue Gas in PRC. Up to the report date, Yunnan Chaoyue Gas has not performed the repayment obligation according to the Repayment Plan. For the financial year ended 31 December 2011, impairment loss of approximately HK$10 million regarding the Deposit had been provided. 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.

MAJOR EVENTS DURING THE YEAR UNDER REVIEW

Repayment of Loan by BIHL

On 20 August 2012, the Company instructed its legal counsel to issue a statutory demand letter ("Demand Letter 1") to the borrower, BIHL whose shares with the stock code 2309 are listed on the main board of The Stock Exchange. After various rounds of negotiation, an in-principle agreement was reached on 11 September 2012 on the issuing of CB by BIHL to the Company, subject to the parties' execution of formal documentation. Subsequently the Company withdrew the Demand Letter 1 on the same day. In December 2012, BIHL informed the Company that it was in discussions with various buyers for the Birmingham City Football Club plc, ("Intended Sales") and proposed that upon completion of the said Intended Sale, BIHL would repay the loan due to the Company. In light of this, the Company agreed to consider withholding steps to enforce its claim whilst BIHL was in discussions for the Intended Sale, but in any event this withhold action would only be effective until 14 March 2013. As the debt remained outstanding on 14 March 2013, the Company instructed its legal counsel to issue a fresh Demand Letter ("Demand Letter 2") to BIHL on 25 March 2013. On 27 March 2013, BIHL replied that they will endeavor to close the sale of the football club, and the progress of the resumption in trading of its shares seems positive. Under these circumstances, BIHL would enter into the negotiation of a proposal for the loan repayment with the Company once a sale deposit is received from the potential buyer of the football club. If the sale of the football club cannot complete within 5 months but after resumption in trading, BIHL is willing to propose to issue CB or shares to the Company for the settlement consideration. In this connection, the Company withdrew the Demand Letter 2 in May 2013. Further the aforesaid settlement offer, BIHL provided the new repayment proposal suggesting the Company taking a two-thirds haircut on the total outstanding debts (inclusive of interest) ("Debts") and accept one-third of the Debts to be payable fully in cash by no later than 12 months from the proposal date of 16 August 2013 but this proposal was rejected by the Company on 18 September 2013. On 2 October 2013, the Company agreed the settlement agreement proposed by BIHL of one-half haircut on the Debts (inclusive of interest calculating up to 2 October 2013) of approximately HK$54.56 million on condition that the balance of one-half Debts of HK$27.28 million will be paid in cash fully by no later than the date falling 3 months from the date of resumption in the trading in the shares of the BIHL. On 24 February 2014, BIHL and the Company came to a settlement of the Debts by accepting HK$27 million in full and final settlement of all liabilities and obligations due to the Company. For the year ended 31 December 2011, impairment loss of approximately HK$40.75 million had been provided. As one-half of Debts were recovered, reversal of impairment loss of HK$19.08 million and wrote off the remaining in 2013.

Disposal of shares of Chinese Energy Holdings Limited

On 18 December 2012 and 30 January 2013, Bonus Raider Investments Limited ("Bonus Raider"), a wholly owned subsidiary of the Company, had through Astrum Capital Management Limited ("Agent") to sell 96,244,700 Shares in total of Chinese Energy Holdings Limited (the "Chinese Energy") to 4 independent third parties at cash consideration of HK$21.41 million. Immediately after the completion of the disposals, the Group was not interested in any Chinese Energy Shares. The net proceeds of the disposals was utilized approximately HK$20.50 million of general working capital including office operating expenses and repayment of debts. The remaining of HK$0.91 million is held at the bank.

Termination of acquisition of Dongguan Kedi Environment Protection Science and Technology Co. Ltd.

On 21 February 2013, the Company entered into a framework agreement with Guangdong Sincody Science Technology Co. Ltd.* (廣東新科迪環保科技有限公司) ("Vendor") for the purpose of acquiring 51% of the entire equity interest of Dongguan Kedi Environment Protection Science and Technology Co., Ltd.* (東莞市科迪環保科技有限公司) ("Target Company") at a consideration not more than RMB40.80 million. The acquisition will be proceeded once the Vendor injects all assets and liabilities of the power plant into the Target Company and have satisfied the requirement of due diligence investigation. The power plant generates power by burning biogas from garbage landfill and has been planned to commence power generation in February 2013. On 21 August 2013, the Company and the Vendor have unanimously agreed to extend the long stop date from 20 August 2013 to 31 December 2013 ("Long Stop Date") by entering into the extension agreement. After several rounds of negotiation following the Long Stop Date, the Company and the Vendor considered that there had not been any substantial progress in the transaction and therefore determine not to proceed with the acquisition on 7 January 2014 (the "Termination"). The directors of the Company are of the view that the Termination does not have any material adverse impact on the financial position and business operation of the Company and its subsidiaries.

Acquisition of Nanjing Feng Shang New Technology Limited Liability Company

On 5 July 2013, China Water Industry (HK) Limited, an indirect wholly-owned subsidiary of the Company entered into the Sale and Purchase Agreement with Mr. Li Jian Ping* (李建平), Mr. Li Kun* (李鵾) and Mr. Yin Qin* (殷勤) (collectively known as "Vendors") to acquire 100% sale shares of Nanjing Feng Shang for a cash consideration of RMB39,600,000. Nanjing Feng Shang is principally engaged in (i) biogas power generating from garbage landfill; (ii) the exploitation, generation and sales of renewable energy; (iii) the sales of biogas power generation machines; and (iv) the sales of electromechanical appliances. On 30 October 2013, all conditions for completion had been fulfilled by the Vendors and the acquisition has been completed accordingly. There were two months of revenue and profit contributed by Nanjing Feng Shang consolidated into the Group in 2013.

Formation of Joint Venture Company and acquisition of land use right

On 6 August 2013, Jiangxi Shunda and Mr. Zhou Ping Hua* 周平華 ("Mr. Zhou") entered into the JV Agreement to establish the JV Company for the acquisition of the Land and to cooperate in the development of the Land. Pursuant to the JV Agreement, the total investment in the JV Company is approximately RMB80 million, RMB40.80 million, representing 51% of the total investment will be contributed by Jiangxi Shunda in cash and the balance of RMB39.20 million, representing 49% of the total investment, will be contributed by Mr. Zhou by way of cash. On 15 August 2013, the Yingtan City Land Resource Bureau, Mr. Zhou and the JV Company entered into the Contract Amendment Agreement, in which the land use rights of the Land was acquired by the JV Company in place of Mr. Zhou as in the Land Use Right Transfer Contract. The total consideration for the land use rights of the Land is RMB73.5 million. The Land is located at 鷹潭市信江新區緯二路以南、緯三路以北、信江路以西 (Yingtan City Xin Jiang Xin District Wei Er Road South, Wei San Road North, Xin Jiang Road West*) with an estimated total area of 16,171.32 square meters. The land use rights of the Land will be for a term of 40 years from the date of completion of the acquisition of the Land for commercial use. The Land is intended to be used by the JV Company for the construction of new commercial buildings for sale. During the year, the JV Company was established namely Yingtan Xiang Rui Property Limited* (鷹潭祥瑞置業有限公司) which is engaged mainly in property trading and investment as well as project management. The construction on the Land has commenced in February 2014 and is expected to complete on or before 30 December 2015.

MAJOR EVENTS AFTER THE YEAR UNDER REVIEW

Acquisition of Shenzhen City Li Sai Industrial Development Limited

On 23 January 2014, Greenspring, an indirect wholly-owned subsidiary of the Company, entered into the Sale and Purchase Agreement with Mr. Huang Han Jian* (黃漢健) and Ms. Xiao Ying* (肖瑛) (collectively known as "Vendors") for the purpose of acquiring approximately 88% of the issued share capital of Shenzhen Li Sai at an aggregate consideration of RMB59,840,000. Shenzhen City Li Sai is principally engaged in the (i) investment holding; (ii) environmental technology development and related technical services; (iii) treatment of domestic waste water, pollution and noise from the commercial and industrial sectors; and (iv) engineering design of environmental pollution controls. Shenzhen Li Sai has been granted the license to operate environmental pollution control facilities (limited to Class B industrial waste water with an expiry date to April 2014). Up to the report date, the Group has not paid any consideration due to the conditions for completion have not been fulfilled by the Vendors. The acquisition is not yet completed.

Acquisition of Yingtan City Run De Property Company Limited

On 19 March 2014, Jiangxi Shunda entered into the Sale and Purchase Agreement with Mr. Dong Gao Zhong* (董高忠) and Mr. Chen Su Jiang* (陳蘇江) (collectively known as "Vendors") for the purpose of acquiring approximately 80% of the issued share capital of the Yingtan City Run De Property Company Limited* (the "Run De Property") (鷹潭市潤德置業有限公司) for an aggregate consideration of RMB30,000,000. The Run De Property is principally engaged in the property development and sales of the "Xinduhui" Real Estate Project* (the "Project") ("新都滙房地產項目") in Guixi, the PRC. The development of the Project has been divided into two phases. The first phase of the Project has basically been completed and start to pre-sale and the second phase of the Project is currently under construction. Pre-selling of units in second phase is expected to be commenced in July 2014 and the construction of second phase is expected to be completed in December 2015. Up to the report date, RMB15,000,000 representing 50% of consideration has paid to the Vendors upon the signing of Sale and Purchase Agreement. The remaining balance RMB15,000,000 representing 50% of consideration will be paid upon completion of the change of registration regarding the transfer of the Sale Shares from the name of the Vendors to the name of the Jiangxi Shunda. Accordingly, the acquisition has not been completed.

Acquisition of Hunan Huiming Environmental Technology Limited

On 21 March 2014, Greenspring entered into the Sale and Purchase Agreement with Hunan Huiming Environmental Energy Limited* ("Hunan Huiming") 湖南惠明環保能源有限公司 and Mr. Huang Jian Xin* (黃建新) (collectively known as "Vendors") to acquire the entire issued share capital of Huiming Technology for a consideration of RMB15,000,000. Huiming Technology is principally engaged in (i) the development of eco-products; (ii) the research, production, and sales of urban roads mechanized cleaning equipment; and (iii) the development and utilization of environmental energy sources. Huiming Technology currently possesses of a waste landfill biogas resource utilization project in Zhuzhou (the "Zhuzhou Biogas Project") and has the right for the exclusive use of all the biogas resources from the waste landfill sites in the city of Zhuzhou for a period until 1 October 2023. The existing annual power production output for the Zhuzhou Biogas Project is approximately 15,750,000 kilowatt and the average electricity price is RMB0.695 per kilowatt. Up to the report date, the conditions for completion have not been fulfilled by the Vendors. The Group has not paid any consideration and the acquisition is not yet completed.

Acquisition of Hunan Feng Ming Energy Technology Limited

On 21 March 2014, Greenspring entered into the Sale and Purchase Agreement with Hunan Huiming and Mr. Hong Ye Fan* (洪也凡) (collectively known as "Vendors") to acquire the entire issued share capital of Feng Ming Technology for an aggregate consideration of RMB3,000,000. Feng Ming Technology is principally engaged in (i) the development of eco-products; (ii) research and development of new energy sources. Feng Ming Technology currently possesses of a solid waste disposal sites biogas resource utilization project in Liuyang (the "Liuyang Biogas Project"). Feng Ming Technology has not yet commenced business. The estimated annual purified landfill gas output for Liuyang Biogas Project is approximately 3,520,000 m^3. Up to the report date, the conditions for completion have not been fulfilled by the Vendors. The Group has not paid any consideration and the acquisition is not completed.

Formation of Joint Venture Company in Changsha, PRC

On 21 March 2014, Greenspring and Hunan Huiming entered into the JV Agreement pursuant to which Greenspring and Hunan Huiming have agreed to establish the JV Company which will be owned as to 91% by Greenspring and as to 9% by Hunan Huiming. Pursuant to the terms of the JV Agreement, the registered capital of the JV Company will be RMB30,000,000. Pursuant to the Changsha Contracts (as defined in the announcement of the Company dated 21 March 2014), Hunan Huiming has been granted the exclusive rights to operate and utilize the landfill gas collected from the solid wastes in the Changsha Landfill Site for an exclusivity period of 35 years expiring on 10 October 2039 (the "Expiration Date"). Apart from the landfill gas resources which has been exploited for the operation of the power plant owned by Hunan Huiming, other landfill gas resources in the Changsha Landfill Site are not yet exploited and utilized (the "Unexploited Landfill Gas Resources"). The JV Company will be established for carrying out the purification process and exploitation of the Unexploited Landfill Gas Resources (the "Purification Project"). Hunan Huiming agreed to transfer the exclusive rights relating to the operation and utilization the Unexploited Landfill Gas Resources to the JV Company at RMB23,000,000. Up to the report date, the JV Company has not been established.

Disposal of shares of BIHL

As at 31 December 2013 and 2012, the Group had an investment in equity securities of BIHL with carrying value of HK$29.90 million. The trading of BIHL's shares was suspended in the Stock Exchange since 30 June 2011. In view of the continuous loss marking performance and financial difficulties of BIHL, the Company disposed all of its investment in BIHL's shares on market transaction through the Stock Exchange at a consideration of HK$46.39 million after the resumption of trading of BIHL's shares in February 2014. The Board believed that the disposal will not cause any material adverse impact to the Group.

FOREIGN EXCHANGE RISK

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

CAPITAL COMMITMENTS

As at 31 December 2013, the Group has the capital commitments contracted but not provided for acquisition of land approximately HK$52.80 million (2012: nil), and acquisition of property, plant and equipment approximately HK$83.80 million (2012: HK$5.70 million).

CONTINGENT LIABILITIES

As at 31 December 2013, the Group did not have any significant contingent liabilities (2012: Nil).

PLEDGE OF ASSETS

The Group's bank loans and other loans of HK$75.19 million in total as at 31 December 2013 (2012: HK$86.65 million) were secured by:

i. Charges over property, plant and equipment in which their carrying amount was HK$1.03 million (2012: HK$2.15 million);

ii. Charges over prepaid lease payments in relation to land use right in which their aggregate carrying amount was HK$nil (2012: HK$10.42 million); and

iii. Charges over concession intangible assets in relation to exclusive operating rights for provision of water supply and sewage treatment service to the public users in which their aggregate carrying amount was HK$nil (2012: HK$18.44 million).

NO MATERIAL CHANGE

Save as disclosed above, during the year ended 31 December 2013, 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 2012.

EMPLOYEES

As at 31 December 2013, excluding jointly controlled entities and associates, the Group had 1,138 (2012: 1,088) employees, of which 9 (2012: 13) are Hong Kong employees. During the year, total employee benefit expenses, including directors' emoluments and provident funds, was HK$88.93 million (2012: HK$68.60 million). The increase was mainly due to the fact that the number of the Group's employees has increased and their salary together with related benefits have risen. 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.

* for identification purposes only

DIRECTORS

Executive Directors

Mr. Wang De Yin ("Mr. Wang"), aged 51, was appointed as an executive Director of the Company and the Chairman in August 2011. He was also appointed as a Chief Executive Officer of the Company in July 2012. Mr. Wang graduated from Xidian University with a bachelor's degree in Computer Engineering. Before joining the Company, Mr. Wang had over 26 years of experience in information technology and business restructuring. He led various scientific research projects and won various awards during his service with Maanshan Iron and Steel Design and Research Institute of The Ministry of Metallurgical Industry. He had been the chairman and president of Shenzhen Modern Computer Company Limited and founder and managing director and chief executive officer of Shenzhen Hornson Science and Tech. Company Limited. From 2005 to 2009, he served as the managing director and general manager of Tibet Urban Development and Investment Co., Ltd. (formerly known as Tibet Jinzhu Co., Ltd.) (Shanghai Stock Exchange stock code: 600773), during which, he undertook business restructuring of the company and launched a series of effective reforms and innovative measures, which prepared the company for the asset restructuring that followed.

Mr. Lin Yue Hui ("Mr. Lin"), aged 43, was appointed as an executive Director of the Company in August 2011. He is currently a partner of Guanghe Law Firm. Mr. Lin graduated from the Correspondence Institute of the Party School of Central Committee of C.P.C. majoring in Law and subsequently obtained a Certificate of Graduation from Doctoral Program from China University of Political Science and Law. Mr. Lin was granted the PRC lawyer's qualification certificate in 2001. Before joining the Company, Mr. Lin had accumulated 17 years of experience in the law profession, his area of practice includes litigation matters involving acquisitions and mergers, real estate, economic disputes etc. He had also been a legal consultant of various companies.

Mr. Liu Feng ("Mr. Liu"), aged 52, was appointed as an executive Director of the Company in August 2011. Mr. Liu graduated from Guangdong Provincial Party School majoring in Economics and subsequently attained postgraduate qualification. Before joining the Company, he had accumulated over 30 years of experience in the banking, finance and property sectors, including the posts of section chief and deputy governor of Foshan Commercial Bank and held directors and senior posts in various investment companies.

Ms. Chu Yin Yin, Georgiana ("Ms. Chu"), aged 43, was appointed as the executive Director and Company Secretary of the Company in October 2006 and November 2006 respectively. Ms. Chu holds a Bachelor's Degree of Business Administration in Accountancy and a Master's Degree of Corporate Governance. She is a fellow member of both the Hong Kong Institute of Certified Public Accountants, the Association of the Chartered Certified Accountants and a member of the Institute of Chartered Accountants in England and Wales. Ms. Chu is also a fellow member of both the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Company Secretaries. Prior to joining the Company, she has over 16 years' extensive experience by working in an international audit firm and other listed companies.

Ms. Deng Xiao Ting ("Ms. Deng"), aged 40, was appointed as an executive Director of the Company in July 2012. Ms. Deng is currently the chairman of Huizhou Honghu Industrial Development Co., Ltd.*(惠州市鴻鵠實業發展有限公司). She has once served as a national civil servant at Huizhou Public Security Bureau. Ms. Deng graduated from Jinan University, majoring in Accounting and subsequently graduated from the Party School of the Central Committee of C.P.C. with a major in law. Ms. Deng is the sister of Mr. Deng Jun Jie who is the beneficial owner of Honghu Capital Co. Ltd. ("Honghu Capital"). Honghu Capital is the substantial shareholder of the Company.

Independent non-executive Directors

Mr. Guo Chao Tian ("Mr. Guo"), aged 68, was appointed as an independent non-executive Director of the Company in June 2012. Mr. Guo is currently the chairman and general manager of Shenzhen Jianling Investment and Development Co., Ltd (深圳市建瓴投資發展有限公司). He is also an independent director of China Jingu International Trust Co., Ltd (中國金穀國際信託有限責任公司). Mr. Guo holds a bachelor degree and a master degree of Economics from Peking University. Before joining the Company, Mr. Guo had more than 28 years of experience in economic analysis and investment. He was the deputy head of the Administrative Department of the Institute of Economics Chinese Academy of Social Science and the head of the Real Estate Department of the Academy. He was accredited as a senior economist by China Rural Trust and Investment Corporation (中國農村信託投資有限公司) and he was a general manager of the Real Estate Department and a general manager of Urban Property Management of the Corporation.

Mr. Li Jian Jun ("Mr. Li"), aged 35, was appointed as an independent non-executive Director of the Company in September 2012. Mr. Li is currently a director of Silver Trend International Industrial Limited. Mr. Li holds a Bachelor Degree in Physics from the South China Normal University. Since July 2000, Mr. Li has held various positions, namely senior engineer of core technology and director, in GP Electronics (Huizhou) Co., Ltd. in Hong Kong and Celestion International Limited, KEF International Limited and Will State Limited in the UK. Mr. Li has almost 10 years of experience in the development of electroacoustic products and management of large-scale enterprises.

Mr. Wong Siu Keung, Joe ("Mr. Wong"), aged 49, was appointed as an independent non-executive Director of the Company in October 2012. Mr. Wong is currently an Independent Non-executive Director of Computech Holdings Limited which is listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (stock code: 8081). Mr. Wong holds a Degree of Master of Arts in International Accounting from City University of Hong Kong. He is an associate member of Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Wong has extensive experience in taxation, accounting, financing, audit field and public listed companies for many years.

SENIOR MANAGEMENT OF THE GROUP

Mr. Tang Hui Ping, Paul ("Mr. Tang"), aged 59, resigned as an executive Director in July 2012 but remains as a Chief Internal Auditor and a Deputy General Manager since 2009. Mr. Tang holds a Bachelor Degree in Accountancy from the South Central University of Finance & Economic, Politics & Law, China and a Master's Degree in Business Administration from the Oklahoma City University, United States of America. He is a member of Certified Management Accountant of Australia in 2000. Mr. Tang has more than 28 years extensive experience in the finance & accounting field in the PRC, Hong Kong and Canada.

Mr. Liu Hui Quan ("Mr. Liu"), aged 51, was appointed as a Deputy General Manager of the Company in January 2012. Mr. Liu holds a Master's Degree in Business Administration from Honolulu University, United States of America. Before joining Company, Mr. Liu has over 10 years extensive experience in the human resource management in the PRC.

Mr. Li Jian Ping ("Mr. Li"), aged 48, was appointed as a deputy general manager of the Company in August 2013. Mr. Li is an expert of the solid waste treatment and the renewable resource power generation in Mainland China. He has long been engaged in the construction of landfill gas power generation projects and the relevant operational management works. Mr. Li has over 10 years extensive experience in the investment and utilization of renewable resources.

Ms. Zhang Chun Li ("Ms. Zhang"), aged 40, was appointed as the finance manager of the Company in April 2013. In January 2014, Ms. Zhang had been promoted to the financial controller of the Company. Ms Zhang graduated from the Institute of Changsha Traffic with the major in accounting. She is an associate member of the Chinese Institute of Certified Public Accountant. Before joining the Group, she had accumulated over 10 years of extensive experience in the financial accounting and management accounting.

OVERVIEW

The board (the "Board") of directors believes that good corporate governance enhances credibility and improves shareholders' and other stakeholders' interests. Maintaining a good, solid, and sensible framework of corporate governance is one of the Company's prime tasks.

The Company is committed to achieving high standards of corporate governance. An internal corporate governance policy was adopted by the Board aiming at providing greater transparency, quality of disclosure as well as more effective risk and internal control. The execution and enforcement of the Company's corporate governance system is monitored by the Board with regular assessments. The Company believes that its commitment to high-standard practices will translate into long-term value and ultimately maximize returns to shareholders. The Board continues to monitor and review the Company's corporate governance practices to ensure compliance.

For the year ended 31 December 2013, the Company has complied with the code provisions of Corporate Governance Code ("CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"), save for the deviations of Code A.2.1, A.4.1 and A.6.7.

A. Directors

A.1 The Board

- The overall management of the Company's business is vested in the Board. The Board takes responsibility to oversee all major matters of the Company, including the formulation and approval of all policy matters, overall strategies, internal control and risk management systems, and monitoring the performance of the senior management. The Directors have to take decisions objectively in the interests of the Company. The Company has held 30 Board meetings in the year of 2013 in which 4 regular board meetings have been given 14 days of notice to all Directors. For other board meetings, at least 3 days notice has been given to the Directors. Directors have been consulted to advice the agenda of the Board meeting.

- Directors may attend meetings in person or through other means of telephone, electronic or other communication facilities in accordance with the Company's Articles of Association ("A.A"). The Board Committees are recorded in sufficient details and kept by the Company Secretary for inspection at any reasonable time on reasonable notice by any Director.

- The Company Secretary had circulated all draft and final versions of minutes to all Directors for their comments and records respectively within a reasonable time after the board meetings were held.

- Directors were supplied with adequate and relevant information in a timely manner to enable them forming decision in the relevant meetings. Every Director is aware that he/she should give sufficient time and attention to the affairs of the Company. Agreed procedures are in place providing to the member of the Board and/or committee to seek independent professional advice at the Company's expenses to assist them to discharge their duties.

- Where a substantial shareholder or a Director had a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, a Board meeting was held by physical board meeting rather than a written resolution with the presence of independent non-executive Directors ("INEDs") who have no material interest in the transaction.

- There was in place a Directors' and Officers' Liabilities Insurance cover in respect of legal actions against Directors and senior management arising out of corporate activities.

- The Board holds meetings on a regular basis and will meet on other occasions when a board-level decision on a particular matter is required. The individual attendance records of each Director including INEDs at the meetings of the Board, Remuneration Committee, Audit Committee, Nomination Committee, Investment Committee and general meetings during the year ended 31 December 2013 are set out below:

Attendance Records

	Number of meetings attended/held					
Name of Directors	Board	Remuneration Committee	Audit Committee	Nomination Committee	Investment Committee	Annual General Meeting
Executives Directors:						
Mr. Wang De Yin *(Chairman and Chief Executive Officer)*	30	N/A	N/A	2	3	1
Mr. Lin Yue Hui	26	N/A	N/A	N/A	3	1
Mr. Liu Feng	29	5	N/A	N/A	2	1
Ms. Deng Xiao Ting	23	N/A	N/A	N/A	N/A	1
Ms. Chu Yin Yin, Georgiana	23	N/A	N/A	N/A	N/A	1
Independent Non-Executive Directors:						
Mr. Guo Chao Tian	27	N/A	2	N/A	N/A	–
Mr. Li Jian Jun	28	5	2	2	N/A	1
Mr. Wong Siu Keung, Joe	28	5	2	2	N/A	1

A.2. Chairman and Chief Executive Officer

- On 19 July 2012, Mr. Wang De Yin, an executive Director and the Chairman of the Company, was appointed as a Chief Executive Officer of the Company ("CEO"). This deviates from the code provision A.2.1, the roles of the chairman and chief executive officer of the Company should be separate and should not be performed by the same individual. 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 facilitate 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.

- When compiling board papers, the Chairman works closely with the Company Secretary to ensure that comprehensive, adequate, complete, reliable and timely information are presently to the Board to enable them to set strategy, monitor progress towards meeting the Group's objectives and to conduct regular reviews of financial performance, risk management and other business issues.

- The executive Directors and Management also work closely with the Company Secretary to ensure that information necessary to keep Directors updated of the latest situation of the Company and for them to make informed decisions are presented to the Board in a timely manner.

- The Chairman provides leadership and is responsible for the effective functioning of the Board in accordance with good corporate governance practice, and encourages and facilitates active contribution of directors in board activities and constructive relations between executive and non-executive Directors. With the support of the senior management, the Chairman is also responsible for ensuring that the Directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at board meeting.

- The Chairman, with the assistance of the Company Secretary and other relevant departmental heads, reviews from time to time various procedural aspects of the Company in order to ensure that good corporate governance practices and procedures are well in place.

- The Chairman believes that it is in the Directors' own best interest to voice whatever concerns they may have as each Director has the same general legal responsibilities to the Company as any other Director, regardless of whether they are executive or non-executive. As such, in each Board meeting, the Chairman nurtures an open and uninhibited environment where other Directors with different views are free to express their own opinions.

- The Chairman has held one private meeting with INEDs to discuss major events or issues which incurred in 2013 and the Company's business plan to be developed in 2014. The Board believed that INEDs could through this private meeting to voice out their concerns on financial aspects after discussing major events or issues and provide constructive advice on the direction of Company's future development.

- On the other hand, the CEO focuses on implementing objectives, policies and strategies approved and delegated by the Board. He is in charge of the Company's day-to-day management and operations. He is also responsible for developing strategic plans and formulating the company practices and procedures, business objectives and risk assessment for the Board's approval.

A.3 Board Composition

- The composition of the Board is shown on page 26 of this report. The Board comprises a total of 8 members including 5 executive Directors and 3 INEDs. Members of the Board have different professional and relevant industry experiences and background so as to bring in valuable contributions and advices for the development of the Group's business.

- During the year, the Board at all times met the requirements of the Listing Rules of 3.13 relating to having at least 3 INEDs.

- The Company has received written confirmation from each independent non-executive Director of their independence to the Group. The Group considered all of INEDs meets the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

- The Company has maintained an updated list of its directors identifying their role and function on its website and on the Stock Exchange's website.

- To the best knowledge of the Company, there is no financial, business or family relationship among the members of the Board.

- The names of the directors and their respective biographies are set out on pages 23 to 24 of this annual report.

A.4 Appointment, re-election and removal

The Company has on 19 January 2012 established Nomination Committee, further details of which are set out in section of A.5 Nomination Committee. All Directors including INEDs have signed letter of appointments with the Company. In addition, the shareholders have right to nominate any person to become a director of the Company in accordance with the A.A of the Company, the procedure for election of directors was published on the Company's website.

- The Board from time to time considers replenishing the composition of the Board whenever the Company requires to meet the business demand, opportunities and challenges and to comply with the laws and regulations. The nomination procedures basically follow the A.A. which empowers the Board from time to time and at any time to appoint any person as a director either to fill a casual vacancy or as an additional to the Board. The Directors will select and evaluate the balance of skills, qualification, knowledge and experience of the candidate to the directorship as may be required by the Company from time to time by such means as the Company may deems fit. The Nomination Committee has considered the candidate from a wide range of backgrounds, on his/her merits and against objective criteria set out by the Board and taking into consideration his/her time devoted to the position.

- The Company's A.A requires for those Directors appointed to fill a casual vacancy to hold office only until the first general meeting after their appointment and be subject to re-election at such meeting. The Company's A.A. also requires at every annual general meeting ("AGM"), one-third of the Directors for the time being or, if their number is not a multiple of three or a multiple of three, then the number nearest to but not less than one-third shall retire from office by rotation provided that every Directors, including those appointed for a specific term shall be subject to retirement by rotation at least once every three years. A retiring Director shall be eligible for re-election to fill a casual vacancy until the next general meeting or the next AGM.

- All INEDs of the Company were not appointed for a specific term but they are subject to retirement by rotation and re-election at AGMs of the Company in line with the Company's A. A. This deviates from Code Provision of A.4.1 of 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.

- Any appointment of an INED who has served on the Board for more than nine years will be subject to a separate resolution to be approved by shareholders. Up to the report date, no INED had been appointed by the Company for over nine years.

A.5 Nomination Committee

- The Nomination Committee currently comprises an executive Director, namely Mr. Wang De Yin (Committee Chairman), two INEDs, namely Mr. Wong Siu Keung, Joe and Mr. Li Jian Jun. The terms of reference of the Nomination Committee is available on the Company's website and on the Stock Exchange's website.

- The main duties of the Nomination Committee include the following:

  i. To review the structure, size and composition and diversity (including without limitation, gender, age, cultural and educational background, ethnicity, professional and industry experience, skills, knowledge and length of service) of the Board at least annually and to make recommendations on any proposed changes to the Board to implement the Company s corporate strategy;

  ii. To identify individuals who are qualified/suitable to become a member of the Board and to select or make recommendations to the Board on the selection of individuals nominated for directorships. In identifying suitable candidates, the Nomination Committee shall consider candidates on merit and against the objective criteria, with due regard for the benefits of diversity on the Board;

  iii. To review the Board Diversity Policy;

iv. To advise the Board on the appointment and succession planning of Directors and assessing the independence of INEDs;

v. The Nomination Committee is required to report back to the Board on their decision or recommendations, unless there are legal or regulatory restrictions on their ability to do so (such as a restriction on disclosure due to regulatory requirements).

- The Company has adopted a board diversity policy (the "Policy") in August 2013 which sets out the approach to achieve and maintain diversity on the Board in order to enhance the effectiveness of the Board. The Policy has been made available on the Company's website.

- The Company recognizes and embraces the benefits of diversity of Board members. While all Board appointments will continue to be made on a merit basis, the Company will ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the needs of the Company's business. Pursuant to the Policy, the measurable objectives for the selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, experience (professional or otherwise), skills, knowledge and length of service.

- During the year, the Nomination Committee has reviewed the composition of the Board in accordance with the measurable objectives of the Policy. An analysis of the current composition of the Board is set out in the following table:

Name of director	Title	Age	Gender	Professional/ Industry experience	Ethnicity	Educational background	Length of service on Board (since)
Wang De Yin	ED, Chairman & CEO	51	Male	Information technology, corporate management and business restructuring	Chinese	Bachelor's degree	August 2011
Lin Yue Hui	ED	43	Male	PRC law profession and investment	Chinese	Doctoral degree	August 2011
Liu Feng	ED	52	Male	Banking, financing and property operation	Chinese	Master's degree	August 2011
Deng Xiao Ting	ED	40	Female	Accounting and investment	Chinese	Bachelor's degree	July 2012
Chu Yin Yin, Georgiana	ED & Company Secretary	43	Female	Accounting, auditing and financing	Chinese	Master's degree	October 2006
Guo Chao Tian	INED	68	Male	Economic analysis and investment	Chinese	Master's degree	June 2012
Li Jian Jun	INED	35	Male	Electro acoustic product & corporate management	Chinese	Bachelor's degree	September 2012
Wong Siu Keung, Joe	INED	49	Male	Accounting, auditing and financing	Chinese	Masters' degree	October 2012

ED: executive Director
INED: Independent non-executive Director

- The Nomination Committee will review the Policy from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives.

- During the year, the Nomination Committee held two meetings and the attendance of each member is set out in the section headed "The Board" of this report

A.6 Responsibilities of the Directors

- The Company ensures that every newly appointed Director should receive a comprehensive information package containing business activities and operation of the Group, the Directors' responsibilities and duties and other statutory requirement upon his/her appointment. The Company Secretary is responsible for keeping all Directors updated on the Listing Rules and other statutory requirement.

- All Directors have participated in continuous professional development to develop and refresh their knowledge and skills to ensure their contribution to the Board remains informed and relevant. In 2013, the Company has arranged a training to all Directors which was provided by the accredited service provider.

During the year ended 31 December 2013, the Directors participated in the following training:

	Type of Continuous Professional Development		
	Training on regulatory development, directors' duties or other relevant topics	**Reading on regulatory updates or information relevant to directors' duties and the Company**	**Courses relating to Corporate Governance/ Accounting/ Financial or other professional skills**
Mr. Wang De Yin	X		
Mr. Lin Yue Hui	X		
Mr. Liu Feng	X		
Ms. Deng Xiao Ting	X		
Ms. Chu Yin Yin, Georgiana	X	X	X
Mr. Guo Chao Tian	X		
Mr. Li Jian Jun	X		
Mr. Wong Siu Keung, Joe	X	X	X

- INEDs were well aware of their functions and had been actively providing their independent advices at the Board meetings, take the lead where potential conflicts of interest arise and scrutinize the Company's performance so as to achieve agreed corporate goals.

- Mr. Wong Siu Keung, Joe and Mr. Li Jian Jun, both of INEDs, are members of the Audit, Remuneration and Nomination Committees.

- There were satisfactory attendances and active participations at the Board meetings, the Board Committee meetings and the general meetings by the 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 (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 confirms that all Directors of the Company have complied with the Model Code regarding directors' securities transactions during the year and up to the date of publication of the annual report.

A.7 Supply of and access to information

- The Company's senior management regularly supplies the Board and its Committees with adequate information in a timely manner to enable them to make informed decisions.

- For Board meetings and the Board Committee meetings, the agenda accompanying with Board papers and relevant materials were sent to all Directors at least 3 days before the intended date of the Board meetings or Board Committee meetings. Queries raised by the Directors would be responded promptly by the relevant management.

B Remuneration of Directors and Senior Management

The Company has established a Remuneration Committee since 29 June 2005 with written terms of reference in consistence with the CG Code. A majority members of the Remuneration Committee is INEDs. The Remuneration Committee currently comprises two INEDs, namely Mr. Wong Siu Keung, Joe (Committee Chairman), Mr. Li Jian Jun and an executive Director, namely Mr. Liu Feng. The terms of reference of the Remuneration Committee is available on the Company's website and on the Stock Exchange's website.

- The main duties of the Remuneration Committee include the following:

  i. To make recommendation to the board on the Company's policy and structure for all remuneration of directors and senior management;

  ii. To determine the remuneration packages of executive directors and senior management, according to the major scope, responsibilities and duties, importance of position of the directors and the senior management as well as the remuneration level of the related position in the market;

  iii. To review and approve management remuneration policy with reference to corporate goals and objectives resolved by the Board from time to time;

  iv. To report back to the Board on their decision or recommendations, unless there are legal or regulatory restrictions on their ability to do so (such as a restriction on disclosure due to regulatory requirements).

- The Remuneration Committee would consult the Chairman or CEO the proposals relating to the remuneration of other executive Directors. The Remuneration Committee may have access to external professional advice if considered necessary.

Details of the emoluments of the Directors of the Company and the five highest paid individuals of the Group are set out in note 14 of the consolidated financial statements in this annual report. The band of the emoluments of senior management personnel and related number of members of senior management personnel are as follows:

Emolument band	**2013** *Number of individuals*	2012 *Number of individuals*
Nil to HK$500,000	**3**	3
HK$500,001 to HK$1,000,000	**1**	–

- During the year ended 31 December 2013, the Remuneration Committee determined the remuneration packages of the executive Directors including INEDs and senior management members of the Company, and reviewed the collective performance and individual performance.

- The Group's stock option scheme as described in note 42 of this annual report is adopted as the Group's long-term incentive scheme.

- The Remuneration Committee held five meetings during the year to review and approve the remuneration of executive Directors including Independent non-executive Directors and senior management. The attendance record of individual members is set out in the section headed "The Board" of this report.

C Accountability and Audit

C.1 Financial Reporting

- Management was required to provide detailed reports and sufficient explanation to enable the Board to make an informed assessment of the financial and other information put before it for approval.

- The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2013. The Board ensures that the financial statements of the Group are prepared so as to give a true and fair view of the financial status of the Group.

- The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirement.

- A statement by the independent auditor of the Company about their reporting responsibilities is included in the Report of the Auditors on pages 48 to 50 of this annual report.

- A separate statement in the Annual Report on pages 5 to 22 containing a discussion and analysis of the Group's performance.

- Executive Directors are provided with a wide range of reports on monthly intervals and are fully aware of the Company's latest performance, position and prospects.

C.2 Internal Control

- The Board acknowledges its responsibility in maintaining sound and effective internal control system for the Group to safeguard investments of the shareholders and assets of the Company at all times. The system of internal controls aims to help achieving the Group's business objectives, safeguarding assets and maintaining proper accounting records for provision of reliable financial information. However, the design of the system is to provide reasonable, but not absolute, assurance against material misstatement in the financial statements or loss of assets and to manage rather than eliminate risks of failure when business objectives are being sought.

- In addition, a policy and procedure regarding the Publication Price-Sensitive Information is established, setting out the guiding principles, procedures and internal controls for the handling and dissemination of price-sensitive information in a timely manner.

- The scope of internal audit covers key areas such as the Company operation, investments, corporate governance and financial management. The work results and suggestions of the Internal Audit Department are reported by the Chief Internal Auditor directly to the Audit Committee for consideration, then makes recommendations to the management of the Company and reports to the Board in respect thereof.

- During the year, the Board has through the Chief Internal Auditor conducted an annual review on the Group's internal control systems, including but not limited to financial, operational and compliance controls and risk management functions. The Board is of the view that the internal control system of the Group are effective and adequate, no material deficiencies have been identified.

- To reinforce and stringent control on the Listing Rules compliance and internal control system, the Company has undertaken steps including: (i) engaged a compliance advisor for consultation matters for a period of two years so as to improve the internal controls for procuring the compliance of the Listing Rules; (ii) revised its internal control system relating to the finance management to enhance management control and introduced more stringent procedures to improve the existing internal control system; and (iii) provided internal training to the accounting staff of Group's PRC operating subsidiaries to reinforce their understanding of the Group's internal control requirements.

- The annual review of the adequacy of resources, qualifications or experience of staff of the Company's accounting and financial reporting function and their training programs and budget was conducted in 2013. The Chief Internal Auditor reported the review results to the Audit Committee. The Board believed that the Company has sufficient qualifications and experience staff in accounting and financial reporting function.

C.3 Audit Committee

The Audit Committee of the Company was established since 29 June 2005 with specific written terms of reference. The Audit Committee comprises 3 INEDs, namely Wong Siu Keung, Joe ("Mr. Wong") (Committee Chairman), Mr. Li Jian Jun and Mr. Guo Chao Tian. Mr. Wong is a certified public accountant for many years. The term of reference of the Audit Committee is available on the Company's website and on the Stock Exchange's website.

The major duties of the Audit Committee include:

(a) to make recommendations to the Board on the appointment, reappointment and removal of the external auditor and to approve the remuneration and the terms of engagement of the external auditor;

(b) to monitor integrity of the Company's financial statements and annual report and accounts, half-year report and to review significant financial reporting judgments contained in them;

(c) to oversight the Company's financial controls, internal control and risk management systems;

(d) to co-ordinate between the internal and external auditors, to monitor the performance of both internal and external auditors and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor the effectiveness of the internal audit function;

(e) to review the interim and final results of the Group prior to recommending them to the Board for approval;

(f) to ensure compliance with applicable statutory accounting and reporting requirements, Listing Rules, legal and regulatory requirements, an internal rules and procedures approved by the Board;

(g) to review and discuss the adequacy of resources, qualifications or experience of staff of the Company's accounting and financial reporting function and their training programs and budget;

(h) to monitor the compliance of the Whistle-blowing policy and ensuring the fair and independent investigation with appropriate follow up action;

(i) to report back to the Board on their decision or recommendations, unless there are legal or regulatory restrictions on their ability to do so (such as a restriction on disclosure due to regulatory requirements).

For the year under review, the Audit Committee held two meetings included the review of the final results for the year ended 31 December 2013 and interim accounts for the six months ended 30 June 2013. The Group's annual report for the year ended 31 December 2013 has been reviewed by the Audit Committee. The attendance record of individual members is set out in the section headed "The Board" of this report.

D. Delegation by the Board

D.1 Management functions

- When the Board delegates aspects of its management and administration functions to the management, it has given clear directions as to the powers of management, in particular, with respect to the circumstance where management shall report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company.

- The segregation of duties and responsibilities between the Board and the management has been defined as follows:

The overall management of the Company's business is vested in the Board. The duties of the Board include:

– Formulating and approval of the Company's operational strategies, management policies and establishing the risk management and internal control system;

– Setting the objectives and targets of the Company;

– Monitoring performance of management and providing guidance to the management; and

– Reviewing the Company's policies and practices on corporate governance.

The day to day management administration and operation of the Company are delegated to the senior management. The duties of the senior management include:

– Regularly evaluating businesses and operation performance;

– Ensuring effective implementation of the Board's decision;

– Ensuring adequate fundings; and

– Monitoring performance of the management of the subsidiaries of the Company.

- Each Director including INED was appointed by formal letter of appointment with the Company upon appointment. Such letter of appointment sets out key terms and condition, the time commitment expected, the roles and functions and amount of remuneration.

D.2 Board Committees

The Company has set up four committees including an Audit Committee, a Remuneration Committee, Nomination Committee and an Investment Committee of the Board with respective terms of reference which clearly defined its authority and duties. The Chairman of Board Committees reported to the Board about their work, findings and recommendations at the Board meetings.

D.3 Corporate Governance Functions

The Board as a whole is responsible for performing the corporate governance duties including:

(a) to develop and review the Company's policies and practices on corporate governance;

(b) to review and monitor the training and continuous professional development of directors and senior management;

(c) to review and monitor the Company's policies and practices in compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and

(e) to review the Company's compliance with the code and disclosure in the Corporate Governance Report.

E Communication with shareholders and investors

E.1 Effective communication

- The AGM or other general meetings of the Company provide a forum for communication between the shareholders and the Board. The Chairman of the Board as well as chairmen of the Audit Committee, Nomination Committee and Remuneration Committee, or in their absence, other members of the respective committees, are available to answer questions at the shareholders' meetings.

- The Company serves notice to shareholders in writing of not less than twenty-one (21) clear days and not less than twenty (20) clear business days before the AGM. Any extraordinary general meeting at which the passing of a Special Resolution may be called by notice in writing of not less than twenty-one (21) clear days and not less than ten (10) clear business days. All other extraordinary general meetings may be called by notice in writing of not less than fourteen (14) clear days and not less than ten (10) clear business days.

- The external auditor of the Company had attended the AGM to answer questions about the conduct of audit, the preparation and content of the auditor's report, the accounting policies and auditor independence.

- Separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors proposed by shareholders.

- The Company continues to enhance communications and relationships with its investors. Designated Directors or senior management maintain regular dialogue with investors and analysis to keep them abreast of the Company's developments. Enquiries from investors are dealt with in an informative and timely manner.

- The Company maintains a corporate website (www.chinawaterind.com) as one of the channels to promote effective corporate communication with the investors and the general public. The website is used to disseminate company announcements, shareholder information and other relevant financial and non-financial information in an electronic format on a timely basis.

- The updated consolidated version of the Company's Memorandum and Articles of Association is available on the Company's website and on the Stock Exchange's website. During the year ended 31 December 2013, there was no change in the Company's constitutional documents.

- The Board has adopted a Shareholders' Communication Policy reflecting mostly the current practices of the Company for communication with its Shareholders. Such policy aims at providing the Shareholders and potential investors with ready and timely access to balanced and understandable information of the Company. The Policy will be reviewed regularly to ensure effectiveness and compliance with the prevailing regulatory and other requirements.

E1.1 SHAREHOLDERS' RIGHTS

Procedures for shareholders to convene an EGM

Pursuant to the A.A of the Company, the Directors may, whenever they think fit, convene an Extraordinary General Meeting ("EGM"). EGM shall also be convened on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Directors or the Secretary for the purpose of requiring an EGM to be called by the Directors for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Directors fail to proceed to convene such meeting, the requisitionist(s) himself/herself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Directors shall be reimbursed to the requisitionist(s) by the Company.

Procedures for proposing a person for election as a Director

As regards the procedure for proposing a person for election as a Director, please refer to the procedures made available under the "Corporate Governance" section ("Procedure for shareholders to propose a person for election of Directors" sub-section) of the Company's website at www.chinawaterind.com.

Procedures for directing shareholders' enquiries to the Board

Shareholders may at any time send their enquires and concerns to the Board in writing through the Company Secretary and the Group Financial Controller whose contact details are set out in the "Contact Us" section of the Company's website at www.chinawaterind.com.

E.2 Voting by poll

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Company's articles of association. Details of such rights to demand a poll and the poll procedures are included in all circulars to shareholders and will be explained during the proceedings of meetings.

Poll results were published on the website of the Stock Exchange as well as the Company's website.

F. Company Secretary

The Company Secretary has been a full time employee who has knowledge of the Company's affairs. The appointment of the current Company Secretary was approved by the Board in November 2006. The Company Secretary reports to the Chairman and CEO and is responsible for advising the Board on corporate governance matters. For the year under review, the Company Secretary has confirmed that she has taken no less than 15 hours of relevant professional training.

Investment Committee

The Investment Committee of the Company was established since 18 December 2008 with specific terms of reference. The Committee members currently consist of three executive Directors, namely Mr. Wang De Yin (Committee Chairman), Mr. Lin Yue Hui, Mr. Liu Feng and two Deputy General Managers namely Mr. Tang Hui Ping and Mr. Liu Hui Quan. The terms of reference of the Investment Committee is available on the Company's website.

- The role of Investment Committee is to oversee the Company's long-term development strategies and major investment decisions and to provide recommendations on the investment of the Company including asset allocation and new investment proposal.

- The major duties of the Investment Committee include:

  (a) Analysis and evaluation of the Company's long-term planning and major investment plans;

  (b) Review the investment policies and strategy;

  (c) Review and analysis of the actual progress of the Company's major strategies plans;

  (d) Review the annual investment proposal of the Company; and

  (e) Report back to the Board on their decision or recommendations, unless there are legal or regulatory restrictions on their ability to do so (such as a restriction on disclosure due to regulatory requirements).

- The Investment Committee held three meetings during the year. The attendance record of individual members is set out in the section headed "The Board" of this report.

AUDITORS' REMUNERATION

On 28 October 2013, the Company's former auditors, SHINEWING (HK) CPA Limited ("SHINEWING"), resigned as the auditors of the Company and Crowe Horwath (HK) CPA Limited ("Crowe Horwath") was appointed as the Company's auditor. For the financial year ended 31 December 2013, the fees paid or payable to Crowe Horwath for audit service provided to the Group are approximately HK$800,000. The auditors' remuneration has been duly approved by the audit committee and there was no disagreement between the Board and the audit committee on the selection and appointment of auditor.

COMPLIANCE WITH THE CODE ON THE CORPORATE GOVERNANCE CODE

The Company has complied with the CG Code throughout the financial year ended 31st December 2013 except for deviations from the code provision A.2.1, A.4.1 and A.6.7 as below:

- Pursuant to the Code Provision of A.2.1 of the CG Code, the roles of the chairman and chief executive officer of the Company should be separate and should not be performed by the same individual. On 19 July 2012, Mr. Wang, an executive Director and 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 facilitate 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 Code Provision of A.4.1 of the CG Code, non-executive directors should be appointed for a specific term, subject to re-election while all directors should be subject to retirement by rotation at least once every three years. All INEDs of the Company were not appointed for a specific term but they are subject to retirement by rotation and re-election at AGM of the Company in line with the Company's A. A.

- Pursuant to code provision A.6.7 of the CG Code, the INEDs and other non-executive Directors should attend general meetings. At the AGM of the Company held on 29 May 2013 ("2013 AGM"), save as Mr. Guo Chao Tian, an independent non-executive Director who was unable to attend due to his business engagement in China, all Directors of the Company had attended the 2013 AGM, at which the Directors had communicated with and developed a balanced understanding of the views of the shareholders.

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

The Board of Directors of the Company, present their report together with the audited consolidated financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2013.

PRINCIPAL ACTIVITIES AND ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The principal activities of the Group include: (i) provision of water supply and sewage treatment service and (ii) construction of water supply and sewage treatment infrastructure.

SEGMENT INFORMATION

The Group is organized into a single operating segment as provision of water supply and sewage treatment as well as construction services primarily in the PRC and all revenue, expenses, results, assets and liabilities and capital expenditures are predominantly attributable to this single segment. Accordingly, no segment analysis by business and geographical information is presented.

RESULTS

The results of the Group for the year ended 31 December 2013 and the state of affairs of the Group and the Company are set out in the financial statements on pages 51 to 159.

DIVIDENDS

The Directors do not recommend the payment of dividend for the year ended 31 December 2013 (2012: Nil).

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2013, the aggregate amount of turnover attribute to the Group's five largest customers was less than 30% of the total value of the Group's turnover. The Group's purchase to the five largest suppliers accounted for less than 30% of the total value of the Group's purchase.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment and investment property of the Group during the year are set out in notes 18 and 21 to the consolidated financial statements, respectively.

SHARE CAPITAL, SHARE OPTIONS AND CONVERTIBLE BONDS

Details of the movements in the Company's share capital, share options and convertible bonds during the year are set out in notes 36, 42, and 35 to the consolidated financial statements, respectively.

REPORT OF THE DIRECTORS

RESERVES AND DISTRIBUTIVE RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and note 36 to the consolidated financial statements, respectively.

BANK BORROWINGS AND BANKING FACILITIES

Particulars of bank loans and other borrowings of the Group as at 31 December 2013 are set out in notes 31 and 32 to the consolidated financial statements, respectively.

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 160.

DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

Executives Directors:

Mr. Wang De Yin *(Chairman and Chief Executive Officer)*
Mr. Liu Feng
Mr. Lin Yue Hui
Ms. Chu Yin Yin, Georgiana
Ms. Deng Xiao Ting

Independent Non-Executive Directors:

Mr. Guo Chao Tian
Mr. Li Jian Jun
Mr. Wong Siu Keung, Joe

In accordance with article 108(A) of the Company's Articles of Association, one-third of the Directors for the time being or, if their number is not a multiple of three or a multiple of three, then the number nearest to but not exceeding one-third shall retire from the office by rotation at least once every three years. Mr. Wang De Yin, Ms. Chu Yin Yin, Georgiana and Ms. Deng Xiao Ting will retire from office by rotation and will offer themselves for re-election at the AGM.

DIRECTORS' BIOGRAPHICAL DETAILS

Biographical details of the directors of the Company are set out on pages 23 to 24 of the annual report.

EMOLUMENT POLICY

A Remuneration Committee is set up for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance and comparable market practices. The Company has adopted a share option scheme as incentive to Directors and eligible employees, details of the scheme are set out as "Share Option Scheme" below.

DIRECTORS' SERVICE CONTRACTS

As at 31 December 2013, none of the Directors has entered into any service contracts with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than normal statutory obligations and Directors are not appointed for specific terms of appointment but are subject for retirement and for re-elections at the forthcoming AGM as required by the Articles of Association of the Company.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 31 December 2013, the interests and short positions of each Director and Chief Executive of the Company, or their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO") which (a) had been notified of the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which Directors have taken or deemed to have under such provisions of the SFO) or which (b) were required pursuant to section 352 of the SFO, to be entered in the register referred to therein; or which (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in Appendix 10 to the Listing Rules to be notified to Company and the Stock Exchange were as follows:

(i) Interest in the Shares

Name of director	Nature of interest	Number of issued ordinary shares held	Total interest	Percentage of the issued share capital of the Company
Chu Yin Yin, Georgiana	Beneficial owner	543,200	543,200 (L)	0.05%

For the purpose of this section, the shareholding percentage in the Company is calculated on the basis of 1,110,331,766 shares in issue as at 31 December 2013.

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

Save as disclosed above, as at 31 December 2013, none of the Directors or Chief Executive of the Company had any interest or short position in any shares, underlying shares or debentures of the Company or any of its associated corporations (within meaning of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which Directors have taken or deemed to have under such provisions of SFO) or (b) were required pursuant to section 352 of the SFO, to be entered in the register referred to therein; or which (c) were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2013, the following persons and entities, other than a Director or chief executive of the Company disclosed under the section "Directors' and Chief executive's interests in Securities" above had interest or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of SFO:

Name of shareholder	Capacity	Number of issued ordinary shares held	Number of underlying shares held under equity derivatives	Approximate percentage of the issued share capital of the Company
Deng Jun Jie	Interest of controlled corporation	280,000,000(L) *(Note 1)*	–	25.22%
Honghu Capital	Beneficial owner	280,000,000(L) *(Note 1)*	–	25.22%
Central Huijin Investment Ltd.	Interest of controlled corporation	–	121,212,121(L) *(Note 2)*	10.92%
China Construction Bank Corporation	Interest of controlled corporation	–	121,212,121(L) *(Note 2)*	10.92%

Note 1: These shares are held by Honghu Capital which Mr. Deng Jun Jie ("Mr. Deng") is the beneficial owner. Mr. Deng is deemed to be interested in shares held by Honghu Capital by virtues of the SFO.

Note 2: These 121,212,121 underlying shares held under equity derivatives are those shares which would be issued upon exercise of the convertible right attached to the convertible bonds issued by the Company as disclosed in the announcement of the Company dated 16 October 2013. These underlying shares are held by Prosper Talent Limited ("Prosper Talent") which is indirectly wholly-owned by China Construction Bank Corporation ("CCBC"). Central Huijin Investment Ltd. ("Central Huijin") is interested in 57.23% of equity interest in CCBC. As the issued share capital of Prosper Talent is indirectly held by CCBC and Central Huijin, they are deemed to be interested in underlying shares by virtue of the SFO.

Note 3: The shareholding percentage in the Company is calculated on the basis of 1,110,331,766 shares in issue as at 31 December 2013.

Note 4: The letter "L" denotes a long position in shares.

DIRECTORS' RIGHTS TO ACQUIRES OR DEBENTURES

Save as disclosed under the heading "Share option scheme" below, at no time during the year were the rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or Chief Executive of the Company or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company and its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance to which the Company or its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or in the year under review.

CONNECTED TRANSACTION

During the year, the Group has the following connected transaction as announced on 17 April 2013 and the Company has fully complied with the requirement under Chapter 14A of the Listing Rules (where applicable).

On 17 April 2013, Shenzhen Shi Guang Trading Limited* (深圳石廣商貿有限公司), an indirect wholly owned subsidiary of the Company, acquired a motor vehicle (the "Vehicle") from Ms. Chen Zhuoxiang, the spouse of Mr. Wang De Yin, an executive Director, Chairman and Chief Executive Officer of the Company for RMB1,100,000 (approximately HK$1,386,000). The Vehicle is currently used for the Group's daily use.

Save as disclosed above, no contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or in the year under review.

RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Group are set out in note 45 to the financial statements.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year and up to the date of this report, none of the Directors are considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group, pursuant to the Listing Rules, other than those business of which directors were appointed as directors to represent the interest of the Company and/or the Group.

SHARE OPTION SCHEME

On 3 June 2011, the Company had adopted the New Share Option Scheme ("Scheme") for the purpose of providing incentives or rewards to selected eligible participants for their contributions to the Group. The scheme is valid and effective for ten years and will expire on 2 June 2022. From the date of the Scheme being adopted up to 31 December 2013, no option has been granted, for which the details are set out in note 42 to the consolidated financial statements. Save for the Scheme, the Company did not have any other Share Option Scheme as at 31 December 2013.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF COMPANY'S LISTED SECURITIES

There were no purchase, redemption or sale of the Company's listed securities by the Company or any of its subsidiaries during the year.

RETIREMENT SCHEMES

The Group's subsidiaries in the People's Republic of China (the "PRC") participate in a central pension scheme ("CPS") operated by the PRC government. The subsidiaries are required to contribute a certain percentage of the relevant PRC employees' salaries to the CPS. The Group's subsidiaries in Hong Kong have also participated in a mandatory provident fund scheme for their staff based in Hong Kong pursuant to the Mandatory Provident Fund Schemes Ordinance. Save as disclosed, the Group was not required to operate any other of retirement benefits of its employees during the year.

POST BALANCE SHEET EVENTS

Details of the post balance sheet events for the year are set out in note 46 to the consolidated financial statements.

SUFFICIENT OF PUBLIC FLOAT

As far as the information publicly available to the Company is concerned and to the best knowledge of the Directors of the Company, at least 25% of the Company's issued share capital were held by members of the public as at the date of this report.

AUDIT COMMITTEE

In accordance with the requirements of the Listing Rules, the Group established an audit committee comprising three Independent Non-executive Directors of the Company. The Audit Committee of the Company has reviewed the audited consolidated financial statements for the year ended 31 December 2013. Information on the work of Audit Committee and its composition are set out in the Corporate Governance Report on page 35 of this Annual Report.

CHANGE IN INFORMATION OF DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of Directors of the Company subsequent to the date of the 2012 Annual Report required to be disclosed were (i) the discretionary bonus was paid to executive Directors in respect of the year ended 31 December 2013, details of emoluments of the Directors of the Company are set out in note 14 of this annual report, and (ii) the updated biographic details of the Directors are set out on pages 23 to 24 of the annual report.

CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 25 to 40 of this Annual Report.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive Directors to be independent.

AUDITORS

On 28 October 2013, SHINEWING has resigned as the auditors of the Company. To fill the casual vacancy following the resignation of SHINEWING, Crowe Horwath has been appointed as the auditors of the Company with effect from 28 October 2013. Crowe Horwath retire and, being eligible, offer themselves for re-appointment. A resolution is to be proposed by the Company at the forthcoming annual general meeting, to re-appoint Crowe Horwath as the auditors of the Company. In the preceding three years, the Company has only changed its auditors from SHINEWING to Crowe Horwath.

By order of the Board
Wang De Yin
Chairman and Chief Executive Officer

Hong Kong, 27 March 2014

*	for identification purposes only

INDEPENDENT AUDITOR'S REPORT

國富浩華(香港)會計師事務所有限公司
Crowe Horwath (HK) CPA Limited
Member Crowe Horwath International

香港 銅鑼灣 禮頓道77號 禮頓中心9樓
9/F Leighton Centre,
77 Leighton Road,
Causeway Bay, Hong Kong

TO THE SHAREHOLDERS OF
CHINA WATER INDUSTRY GROUP LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Water Industry Group Limited (the "Company") and its subsidiaries (collectively the "Group") set out on pages 51 to 159, which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

BASIS FOR QUALIFIED OPINION

(1) As disclosed in note 23 to the consolidated financial statements, the Group had an investment in listed equity securities in Hong Kong with a carrying value of HK$29,898,000 as at 31 December 2013.

The trading of the listed equity investments was suspended during the years ended 31 December 2013 and 2012. The directors of the Company considered that there was no material change in the fair value of the listed equity investments. However, we are unable to obtain sufficient appropriate audit evidence or to carry out satisfactory audit procedures to satisfy ourselves the basis upon which the directors of the Company have formed their opinion. We were unable to ascertain the fair value of the available-for-sale investments stated in the consolidated and company statements of financial position as at 31 December 2013. Consequently, we were unable to determine whether any adjustments to the fair value were necessary.

(2) The Group had loans receivables of approximately HK$43,598,000, before the provision of impairment losses of approximately HK$15,598,000, as at 31 December 2012. The previous auditors have not been provided with sufficient evidence to satisfy themselves as to the recoverability of the loan receivable and as to whether the impairment loss of the loan receivable determined by the directors of the Company against the carrying amount of the loan receivable were fairly stated as at 31 December 2012. There are no other satisfactory audit procedures which the previous auditors could adopt to ascertain the carrying amount of the loan receivable as at 31 December 2012 being fairly stated in the consolidated financial statements for the year ended 31 December 2012.

Any adjustments found to be necessary to the opening carrying amount of the loan receivables as at 31 December 2012 would have a consequential effect on the Group's and the Company's net assets as at 31 December 2012, the Group's profit for the year ended 31 December 2013 and related disclosures in these financial statements.

QUALIFIED OPINION

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraphs, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

OTHER MATTER

The consolidated financial statements of the Group for the year ended 31 December 2012 were audited by another auditor who expressed a disclaimer of opinion on those statements on 27 March 2013 as a result of the limitation of scope based on reasons summarised in the basis for disclaimer of opinion paragraphs therein.

Crowe Horwath (HK) CPA Limited
Certified Public Accountants
Hong Kong, 27 March 2014

Sum Yuk Fan, Sharon
Practising Certificate Number P04967

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2013

	Note	2013 HK$'000	2012 HK$'000
Revenue	8	**510,959**	327,885
Cost of sales		**(310,272)**	(197,898)
Gross profit		**200,687**	129,987
Other operating income	10	**40,467**	76,530
Waiver of loan interest and interest payables	31 and 32	**59,748**	4,219
Reversal of impairment loss recognised on trade and other receivables	27	**21,071**	16,810
Change in fair value of investment property	21	**3,054**	504
Selling and distribution expenses		**(23,309)**	(12,857)
Administrative expenses		**(100,053)**	(81,912)
Other operating expenses		**–**	(1,114)
Finance costs	11	**(15,352)**	(31,744)
Change in fair value of derivative financial instruments	35	**(7,621)**	–
Gain (loss) on disposal of available-for-sale investments		**6,823**	(1,554)
Impairment loss recognised on:–			
– trade and other receivables	27	**(30,590)**	(4,361)
– property, plant and equipment	18	**–**	(35)
– prepaid lease payments	19	**–**	(584)
– concession intangible assets	20	**–**	(6,118)
Share of losses of associates	25	**(2,268)**	(5,851)
Profit before taxation		**152,657**	81,920
Income tax	12	**(46,697)**	(35,998)
Profit for the year	13	**105,960**	45,922
Attributable to:			
Owners of the Company		**61,419**	22,016
Non-controlling interests		**44,541**	23,906
		105,960	45,922
Earnings per share (HK cents):	17		
Basic		**5.53**	3.96
Diluted		**5.53**	3.96

The notes on pages 61 to 159 form part of these financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2013

	Note	2013 HK$'000	2012 HK$'000 (Restated)
Profit for the year		**105,960**	45,922
Other comprehensive income for the year			
Items that may be reclassified subsequently to profit or loss:			
Exchange difference on translation of financial statements of overseas subsidiaries:			
Exchange difference arising during the year		**16,647**	4,820
Available-for-sale investments:			
Reclassification adjustments relating to available-for-sale investments disposed of during the year		**(1,110)**	–
Net gain arising on revaluation of available-for-sale investments during the year		**9,147**	1,110
		8,037	1,110
Share of other comprehensive income of associates	25	**2,117**	720
Items that will not be reclassified subsequently to profit or loss:			
Gain on revaluation of investment property upon transfer from property, plant and equipment	21	**–**	9,290
Deferred tax liability arising on gain on revaluation of properties	38	**–**	(2,323)
		–	6,967
Other comprehensive income for the year, net of income tax		**26,801**	13,617
Total comprehensive income for the year		**132,761**	59,539
Attributable to:			
Owners of the Company		**79,960**	30,434
Non-controlling interests		**52,801**	29,105
		132,761	59,539

The notes on pages 61 to 159 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2013

	Note	2013 HK$'000	2012 HK$'000 (Restated)
Non-current assets			
Property, plant and equipment	18	**161,433**	111,733
Deposits paid for acquisition of property, plant and equipment		**272**	5,663
Deposits paid for acquisition of prepaid lease payments	19	**40,701**	–
Prepaid lease payments	19	**41,381**	41,629
Concession intangible assets	20	**622,630**	530,591
Investment property	21	**21,037**	17,390
Other intangible assets	22	**59,763**	10,292
Available-for-sale investments	23	**95,781**	68,439
Interest in associates	25	**32,680**	32,831
Deposit paid for acquisition of additional interest of a subsidiary		**–**	3,589
Deferred tax assets	38	**1,226**	–
		1,076,904	822,157
Current assets			
Inventories	26	**24,581**	67,954
Trade and other receivables	27	**108,364**	89,113
Prepaid lease payments	19	**1,307**	1,252
Amounts due from customers for contract works	30	**8,790**	2,755
Cash held by financial institutions	28	**8,797**	38,045
Bank balances and cash	28	**241,767**	201,204
		393,606	400,323
Current liabilities			
Trade and other payables	29	**157,459**	206,991
Amounts due to customers for contract works	30	**11,693**	20,913
Bank borrowings	31	**42,116**	45,953
Other loans	32	**65,722**	54,473
Amounts due to non-controlling shareholders of subsidiaries	33	**3,803**	4,108
Loan from an associate	34	**3,178**	2,931
Convertible bonds	35	**107,352**	–
Tax payables		**41,508**	24,084
		432,831	359,453
Net current (liabilities) assets		**(39,225)**	40,870
Total assets less current liabilities		**1,037,679**	863,027

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2013

	Note	2013 HK$'000	2012 HK$'000 (Restated)
Capital and reserves			
Share capital	36	**555,166**	555,166
Share premium and reserves		**(11,492)**	(90,223)
Equity attributable to owners of the Company		**543,674**	464,943
Non-controlling interests		**282,827**	219,904
TOTAL EQUITY		**826,501**	684,847
Non-current liabilities			
Bank borrowings	31	**26,710**	34,532
Other loans	32	**52,619**	34,572
Government grants	37	**95,980**	90,319
Deferred tax liabilities	38	**35,869**	18,757
		211,178	178,180
		1,037,679	863,027

Approved and authorised for issue by the board of directors on 27 March 2014:

Wang De Yin
Chairman and Chief Executive Officer

Liu Feng
Director

The notes on pages 61 to 159 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

At 31 December 2013

	Note	2013 HK$'000	2012 HK$'000 (Restated)
Non-current assets			
Investments in subsidiaries	24	**2**	2
Available-for-sale investments	23	**95,781**	50,991
		95,783	50,993
Current assets			
Other receivables	27	**293**	293
Loans receivables	27	**27,000**	28,000
Amounts due from subsidiaries	45(a)	**526,524**	419,639
Cash held by financial institutions	28	**8,766**	34,097
Bank balances and cash	28	**248**	24,515
		562,831	506,544
Current liabilities			
Other payables	29	**3,252**	500
Convertible bonds	35	**107,352**	–
		110,604	500
Net current assets		**452,227**	506,044
Total assets less current liabilities		**548,010**	557,037
Capital and reserves			
Share capital	36	**555,166**	555,166
Share premium and reserves	36	**(7,156)**	1,871
Total equity		**548,010**	557,037

Approved and authorised for issue by the board of directors on 27 March 2014:

Wang De Yin
Chairman and Chief Executive Officer

Liu Feng
Director

The notes on pages 61 to 159 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

	Attributable to owners of the Company										
	Share capital HK$'000 (note 36(b))	Share premium HK$'000 (note 36(c))	Convertible bond equity reserve HK$'000	Revaluation reserve HK$'000 (note 3(g))	Translation reserve HK$'000 (note 36(c))	Reserve funds HK$'000 (note 36(c))	Investment revaluation reserve HK$'000 (note 36(c))	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
Balance at 1 January 2012 (as previously reported)	410,332	609,578	74,802	–	42,698	10,517	–	(1,044,611)	103,316	200,355	303,671
Effect of prior year adjustment *(note 4)*	–	–	–		(339)	–	–	(9,607)	(9,946)	(9,556)	(19,502)
Balance at 1 January 2012 (restated)	410,332	609,578	74,802	–	42,359	10,517	–	(1,054,218)	93,370	190,799	284,169
Changes in equity for 2012:											
Profit for the year	–	–	–		–	–	–	22,016	22,016	23,906	45,922
Other comprehensive income for the year											
Gain on revaluation of investment property upon transfer from property, plant and equipment	–	–	–	4,738	–	–	–	–	4,738	4,552	9,290
Deferred tax arising from revaluation on investment property	–	–	–	(1,185)	–	–	–	–	(1,185)	(1,138)	(2,323)
Exchange difference arising on translation	–	–	–	–	3,035	–	–	–	3,035	1,785	4,820
Share of other comprehensive income of associates	–	–	–	–	720	–	–	–	720	–	720
Fair value gain recognised on available-for-sale investments	–	–	–	–	–	–	1,110	–	1,110	–	1,110
Total comprehensive income for the year	–	–	–	3,553	3,755	–	1,110	22,016	30,434	29,105	59,539

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

	Attributable to owners of the Company										
	Share capital HK$'000 *(note 36(b))*	Share premium HK$'000 *(note 36(c))*	Convertible bond equity reserve HK$'000	Revaluation reserve HK$'000 *(note 3(g))*	Translation reserve HK$'000 *(note 36(c))*	Reserve funds HK$'000 *(note 36(c))*	Investment revaluation reserve HK$'000 *(note 36(c))*	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
Placing of new shares *(note 36(a))*	110,000	1,380	–	–	–	–	–	–	111,380	–	111,380
Transaction costs attributable to issue of shares	–	(3,167)	–	–	–	–	–	–	(3,167)	–	(3,167)
Shares issued upon conversion of convertible bonds	240,000	67,728	(74,802)	–	–	–	–	–	232,926	–	232,926
Capital reduction	(205,166)	205,166	–	–	–	–	–	–	–	–	–
Transfer *(note 36(a))*	–	(396,683)	–	–	–	–	–	396,683	–	–	–
Transfers to reserve funds	–	–	–	–	–	3,928	–	(3,928)	–	–	–
At 31 December 2012 (restated)	555,166	484,002	–	3,553	46,114	14,445	1,110	(639,447)	464,943	219,904	684,847

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

	Attributable to owners of the Company									
	Share capital HK$'000 (note 36(b))	Share premium HK$'000 (note 36(c))	Revaluation reserve HK$'000 (note 3(g))	Translation reserve HK$'000 (note 36(c))	Reserve fund HK$'000 (note 36(c))	Investment revaluation reserve HK$'000 (note 36(c))	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
Balance at 1 January 2013 (as previously reported)	555,166	484,002	3,553	46,557	14,445	1,110	(629,840)	474,993	229,559	704,552
Effect of prior year adjustment *(note 4)*	–	–	–	(443)	–	–	(9,607)	(10,050)	(9,655)	(19,705)
Balance at 1 January 2013 (restated)	555,166	484,002	3,553	46,114	14,445	1,110	(639,447)	464,943	219,904	684,847
Changes in equity for 2013:										
Profit for the year	–	–	–	–	–	–	61,419	61,419	44,541	105,960
Other comprehensive income for the year										
Exchange difference arising on translation	–	–	–	8,387	–	–	–	8,387	8,260	16,647
Share of other comprehensive income of associates	–	–	–	2,117	–	–	–	2,117	–	2,117
Fair value gain on available-for-sale investments	–	–	–	–	–	9,147	–	9,147	–	9,147
Reclassification adjustments relating to available-for-sale investments disposed of during the year	–	–	–	–	–	(1,110)	–	(1,110)	–	(1,110)
Total comprehensive income for the year	–	–	–	10,504	–	8,037	61,419	79,960	52,801	132,761
Capital contribution from non-controlling shareholders of a newly incorporated subsidiary *(note 24)*	–	–	–	–	–	–	–	–	12,492	12,492
Additional equity interest of a subsidiary *(note 24)*	–	–	–	–	(1,229)	–	–	(1,229)	(2,370)	(3,599)
Transfers to reserve funds	–	–	–	–	9,110	–	(9,110)	–	–	–
At 31 December 2013	555,166	484,002	3,553	56,618	22,326	9,147	(587,138)	543,674	282,827	826,501

The notes on pages 61 to 159 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	2013 HK$'000	2012 HK$'000 (Restated)
Operating activities		
Profit before taxation	**152,657**	81,920
Adjustments for:		
Depreciation of property, plant and equipment	**10,634**	6,845
Amortisation of prepaid lease payments	**1,286**	1,247
Amortisation of concession intangible assets	**29,451**	23,562
Amortisation of other intangible assets	**583**	–
Impairment loss recognised on:		
– trade and other receivables	**30,590**	4,361
– property, plant and equipment	**–**	35
– prepaid lease payments	**–**	584
– concession intangible assets	**–**	6,118
– available-for-sale investments	**–**	1,114
Reversal of impairment loss recognised on trade and other receivables	**(21,071)**	(16,810)
Concession intangible assets written off	**82**	155
Change in fair value of investment property	**(3,054)**	(504)
Change in fair value of derivative financial instruments	**7,621**	–
Finance costs	**15,352**	31,744
Wavier of loan interest and interest payables	**(59,748)**	(4,219)
Interest income	**(26,103)**	(20,420)
Government grant income	**(3,223)**	(39,993)
(Gain) loss on disposal of:		
– property, plant and equipment and prepaid land lease	**(2,569)**	44
– available-for-sale investments	**(6,823)**	1,554
Share of losses of associates	**2,268**	5,851
Changes in working capital:		
Decrease (increase) in inventories	**43,373**	(22,352)
Increase in trade and other receivables	**(21,392)**	(35,722)
(Increase) decrease in amounts due from customers for contract works	**(6,035)**	4,765
Increase (decrease) in trade and other payables	**6,386**	(5,450)
(Decrease) increase in amounts due to customers for contract works	**(9,220)**	16,661
Cash generated from operations	**141,045**	41,090
Income taxes paid in the PRC	**(24,699)**	(13,876)
Net cash generated from operating activities	**116,346**	27,214

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	Note	2013 HK$'000	2012 HK$'000 (Restated)
Investing activities			
Purchase of property, plant and equipment		**(28,912)**	(28,470)
Deposits paid for acquisition of property, plant and equipment		**(272)**	(5,663)
Deposits paid for acquisition of prepaid lease payments		**(40,701)**	–
Proceeds from disposal of property, plant and equipment and prepaid lease payments		**4,196**	466
Acquisition of concession intangible assets		**(102,370)**	(31,011)
Purchase of available-for-sale investments		**(68,800)**	(19,983)
Proceeds from disposal of available-for-sale investments		**56,318**	3,945
Repayment from borrowers		**–**	55,449
Acquisition of a subsidiary, net of cash acquired	39	**(44,974)**	–
Interest received		**26,103**	20,420
Government grants received		**6,012**	20,392
Net cash (used in) generated from investing activities		**(193,400)**	15,545
Financing activities			
Proceeds from new bank borrowings and other loans		**49,359**	34,625
Repayment of bank borrowings and other loans		**(49,766)**	(26,326)
(Repayment to) advances from non-controlling shareholders of subsidiaries		**(305)**	1,049
Capital contribution from non-controlling shareholders		**12,492**	–
Advance from an associate		**247**	174
Proceeds from issue of new shares		**–**	111,380
Transaction costs attributable to issue of shares		**–**	(3,167)
Proceeds from issue of convertible bonds		**100,000**	–
Deposit paid for acquisition of additional interest of a subsidiary		**–**	(3,589)
Interest paid		**(26,358)**	(10,845)
Net cash generated from financing activities		**85,669**	103,301
Net increase in cash and cash equivalents		**8,615**	146,060
Cash and cash equivalents at 1 January		**239,249**	91,834
Effect of foreign exchange rates changes		**2,700**	1,355
Cash and cash equivalents at 31 December		**250,564**	239,249

The notes on pages 61 to 159 form part of these financial statements.

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"). The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

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 Company is an investment holding company. The principal activities of its subsidiaries are set out in note 24.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

(i) The Hong Kong Institute of Certified Public Accountants (the "HKICPA") has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009-2011 Cycle
Amendments to HKAS 1	Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated financial statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition guidance
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
Revised HKAS 19	Employee Benefits
Revised HKAS 27	Separate Financial Statements
Revised HKAS 28	Investments in Associates and Joint Ventures

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period with the exception of the amendments to HKAS 36, *Impairment of assets – Recoverable amount disclosures for non-financial assets*, which modify the disclosure requirements for impaired non-financial assets. The amendments are effective for annual periods beginning on or after 1 January 2014, but as permitted by the amendments, the Group has adopted the amendments early. Impacts of the adoption of other new or amended HKFRSs are discussed below:

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) *(Continued)*

(i) *(continued)*

Annual improvements to HKFRSs 2009-2011 Cycle

This cycle of annual improvements contains amendments to five standards with consequential amendments to other standards and interpretations. Among them, HKAS 1 has been amended to clarify that an opening statement of financial position is required only when a retrospective application of an accounting policy, a retrospective restatement or a reclassification has a material effect on the information presented in the opening statement of financial position. The amendments also remove the requirement to present related notes to the opening statement of financial position when such statement is presented.

Since the Group considers that the restatements as detailed in note 4 to the financial statements do not have a material impact on the opening financial position, an additional statement of financial position as at 1 January 2012 has not been presented in these financial statements.

Amendments to HKAS 1, Presentation of financial statements – Presentation of items of other comprehensive income

The amendments require entities to present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The presentation of other comprehensive income in the consolidated statement of profit or loss and other comprehensive income in these financial statements has been modified accordingly.

In addition, the Group has chosen to use the new titles “statement of profit or loss” and “statement of profit or loss and other comprehensive income” as introduced by the amendments in these financial statements.

Amendments to HKFRS 7, Disclosures – Offsetting Financial Assets and Financial Liabilities

The amendments introduce new disclosures in respect of offsetting financial assets and financial liabilities. Those new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32 Financial Instruments: Presentation and those that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether the financial instruments are set off in accordance with HKAS 32.

The adoption of the amendments does not have an impact on these financial statements because the Group has not offset financial instruments, nor has it entered into master netting arrangement or similar agreement which is subject to the disclosures of HKFRS 7 during the periods presented.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(i) *(continued)*

HKFRS 10, Consolidated financial statements

HKFRS 10 replaces the requirements in HKAS 27, *Consolidated and separate financial statements* relating to the preparation of consolidated financial statements and HK-SIC 12 *Consolidation – Special purpose entities*. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

As a result of the adoption of HKFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013.

HKFRS 11 Joint Arrangements

HKFRS 11, which replaces HKAS 31 Interests in Joint Ventures, divides joint arrangements into joint operations and joint ventures. Entities are required to determine the type of an arrangement by considering the structure, legal form, contractual terms and other facts and circumstances relevant to their rights and obligations under the arrangement. Joint arrangements which are classified as joint operations under HKFRS 11 are recognised on a line-by-line basis to the extent of the joint operator's interest in the joint operation. All other joint arrangements are classified as joint ventures under HKFRS 11 and are required to be accounted for using the equity method in the Group's consolidated financial statements. Proportionate consolidation is no longer allowed as an accounting policy choice.

HKFRS 12, Disclosure of interests in other entities

HKFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by HKFRS 12 are generally more extensive than those previously required by the respective standards. To the extent that the requirements are applicable to the Group, the Group has provided those disclosures in notes 24 and 25.

HKFRS 13, Fair value measurement

HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. To the extent that the requirements are applicable to the Group, the Group has provided those disclosures in notes 7, 21 and 35. The adoption of HKFRS 13 does not have any material impact on the fair value measurements of the Group's assets and liabilities.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(ii) Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2013 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

Amendments to HKFRSs	Annual Improvements to HKFRSs 2010-2012 Cycle[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011-2013 Cycle[3]
HKFRS 9	Financial Instruments[4]
HKFRS 14	Regulatory Deferral Accounts[5]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[4]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[1]
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions[3]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting[1]
HK (IFRIC) – Int 21	Levies[1]

1 Effective for annual periods beginning on or after 1 January 2014

2 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions

3 Effective for annual periods beginning on or after 1 July 2014

4 Available for application – the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised

5 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2013 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates.

The consolidated financial statements have been prepared on the historical cost basis, except for the following assets and liabilities that are measured at fair values, as explained in the accounting policies set out below:

– investment property (note 21)
– available-for-sale investments (note 23)
– embedded derivatives in convertible bonds (note 35)

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 5.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- a deferred tax asset or liability arising from the assets acquired and liabilities assumed in a business combination and the potential tax effects of temporary differences and carryforwards of an acquiree that exist at the acquisition date or arise as a result of the acquisition are recognised and measured in accordance with HKAS 12 *Income Taxes*;

- assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 19 *Employee Benefits*;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date (see the accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another HKFRS.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Goodwill

Goodwill arising on an acquisition of a business is carried at cost less accumulated impairment losses (note 3(o)), if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

(e) Investments in subsidiaries and non-controlling interests

Investments in subsidiaries are included in the Company's statement of financial position at cost less any identified impairment loss (note 3(o)).

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Investments in subsidiaries and non-controlling interests *(Continued)*

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the owners of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the owners of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Investments in associates

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

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (note 3(o)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses (note 3(o)), if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment (other than construction in progress) less their residual values, if any, using the straight-line method over their estimated useful lives as follows:

Buildings	Over the shorter of the term of the lease, or 30 years
Plant and machinery	5 to 10 years
Leasehold improvements	Over the shorter of the term of the lease, or 5 to 10 years
Motor vehicles	5 years
Water pipeline	15 to 25 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised in profit or loss during the financial period in which they are incurred.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net proceeds on disposal and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Property, plant and equipment *(Continued)*

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in profit or loss and other comprehensive income and accumulated in revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to accumulated losses.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit and loss.

(h) Buildings under development for future owner-occupied purpose

When buildings are in the course of development for production or for administrative purposes, the amortisation of prepaid lease payments provided during the construction period is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses (note 3(o)). Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

(i) Investment property

Investment property is property held to earn rentals and/or for capital appreciation. Investment property includes land held for undetermined future use, which is regarded as held for capital appreciation purpose.

Investment property is initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment property is measured at its fair value. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Concession intangible assets

When the Group has a right to charge for usage of concession infrastructure, it recognises concession intangible assets at fair value upon initial recognition. The concession intangible assets representing water supply and sewage treatment operating rights are carried at cost less accumulated amortisation and any accumulated impairment losses (note 3(o)).

The concession intangible assets are amortised to write off their cost, over their expected useful lives in the remaining concession period using an amortisation period which reflects the pattern in which their future economic benefits are expected to be consumed on a straight-line basis.

Costs in relation to the day-to-day servicing, repair and maintenance of the water supply and sewage treatment infrastructures are recognised as expenses in the periods in which they are incurred.

(k) Exclusive rights acquired in a business combination

The Company and its subsidiary acquired the exclusive rights of collection and utilization of landfill gas in connection with the acquisition of Nanjing Feng Shang. The exclusive rights were initially recognized at fair value at the acquisition date. The rights have a finite useful live and have a period of 12 years, and are carried at cost less accumulated amortisation and any accumulated impairment losses (note 3(o)).

The exclusive rights of collection and utilization of landfill gas are amortised to write off their cost, over their expected useful lives on a straight-line basis.

(l) Leasehold land and buildings for own use

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as “prepaid lease payments” in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Construction contracts

Where the outcome of a construction contract (including construction or upgrade services of the infrastructure under a service concession arrangement) can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion that contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade and other receivables.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Other investments in equity securities

The Group's and the Company's policies for investments in equity securities, other than investments in subsidiaries and associates, are as follows:

Investments in equity securities are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs. These investments are subsequently accounted for as follows, depending on their classification:

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. The Group has designated the listed equity securities as an available-for-sale investment upon initial recognition of those items.

Equity securities held by the Group that are classified as available-for-sale financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve.

When the investment is derecognised of or is determined to be impaired (see note 3(o)), the cumulative gain or loss recognised in equity is reclassified to profit or loss.

Investments are recognised/derecognised on the date the Group and/or the Company commits to purchase/sell the investments or when they expire.

Dividend income from these investments is recognised in profit or loss in accordance with the policy set out in note 3(aa).

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Impairment of assets

(i) Impairment of investments in equity securities and other receivables

Investments in equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- significant changes in the technological, market, economic or legal environment that have an adverse impact on the debtor or counterparty; or
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For investments in associates accounted for under the equity method in the consolidated financial statements (note 3(f)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 3(o)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 3(o)(ii).
- For unquoted equity securities carried at cost, impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Impairment of assets *(Continued)*

(i) Impairment of investments in equity securities and other receivables (Continued)

- For trade receivables and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

- For available-for-sale securities which are stated at fair value, when a decline in the fair value has been recognised in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

  Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Impairment of assets *(Continued)*

(i) Impairment of investments in equity securities and other receivables (Continued)

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade and other debtors included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- prepaid lease payments;
- goodwill;
- concession intangible assets;
- other intangible assets;
- investments in subsidiaries in the Company's statement of financial position; and
- deposits paid.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Impairment of assets *(Continued)*

(ii) Impairment of other assets (Continued)

– Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying amount of an asset will not be reduced below its individual fair value less costs of disposal (if measurable), or value in use (if determinable).

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(p) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories is calculated using the weighted average method and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value represents the estimated selling price for inventories in the ordinary course of business less all estimated costs of completion and costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts (note 3(o)).

(r) Cash and cash equivalents

Bank balances and cash in the consolidated statement of financial position comprise cash at banks, financial institutions and on hand. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash as defined above.

(s) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(t) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(u) Convertible bonds

(i) Convertible bonds that contain liability and equity components

Convertible bonds that contain both the liability and conversion option components are classified separately into respective items on initial recognition in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

At initial recognition, the liability component of the convertible bonds is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. The excess of the gross proceeds of the issue of the convertible bonds over the fair value assigned to the liability component, representing the conversion option for the holder to convert the bonds into equity, is included in convertible bond equity reserve.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Convertible bonds *(Continued)*

(i) Convertible bonds that contain liability and equity components (Continued)

Transaction costs that relate to the issue of the convertible bond are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity components are charged directly to equity. Transaction costs relating to the liability components are included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

In subsequent periods, the liability component of the convertible bond is carried at amortised cost using the effective interest method.

If the bond is converted, the convertible bond equity reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the bond is redeemed, the convertible bond equity reserve is released directly to accumulated losses. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

(ii) Other convertible bonds

Convertible bonds which do not contain an equity component are accounted for as follows:

At initial recognition the derivative component of the convertible bonds is measured at fair value and presented as part of derivative financial instruments (see note 3(v)). Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in profit or loss.

The derivative component is subsequently remeasured in accordance with note 3(v). The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method.

If the bond is converted, the carrying amounts of the derivative and liability components are transferred to share capital and share premium as consideration for the shares issued. When the bond is redeemed, any difference between the amount paid and the carrying amounts of both components is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is re-measured. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

(w) Equity-settled share-based payment transactions

(i) Share options granted to employees

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in equity (share options reserve). The fair value is measured at grant date, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year under review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the share options reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the share options reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the share options reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to accumulated losses).

(ii) Share options granted to eligible persons

Share options issued in exchange for services are measured at fair values of services received. The fair values of services received are recognised as expenses, with a corresponding increase in equity (share options reserve), when the counterparties render services, unless the services qualify for recognition as assets.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(x) Other employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Payments to the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered services entitling them to the contributions.

The subsidiaries in the PRC participate in the Central Pension Scheme (the "CPS") operated by the PRC government for all of their staff. The subsidiaries are required to contribute a certain percentage of their covered payroll to the CPS to fund the benefits. The only obligation of the Group with respect to the CPS is to pay the ongoing required contributions under the CPS. Payments to the CPS are recognised as expenses as they fall due in accordance with the rules of the CPS.

(ii) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(y) Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are included in non-current liabilities as deferred government grants in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(z) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statement of profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(z) Taxation *(Continued)*

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, deferred tax liabilities and deferred tax assets for such investment properties are measured in accordance with the above general principles set out in HKAS 12 (i.e. based on the expected manner as to how the properties will be recovered). Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(aa) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue arising from water supply is recognised based on water supplied as recorded by meter readings during the year.

Revenue from sewage treatment is recognised based on actual sewage treated from meter readings during the year.

Water supply and sewage treatment infrastructure construction income is recognised based on the stage of completion of the work performed in the period in which the service are provided by the Group. When the Group provides more than one service in a service concession arrangement the consideration received is allocated by reference to the relative fair values of the services delivered.

Water supply related installation and construction income is recognised when services are rendered and income can be measured reliably.

Revenue from long-term construction contracts is recognised in accordance with the Group's accounting policy on construction contracts (note 3(m)).

Sales of electricity from the biogas power plant are recognised when electricity is generated and transmitted.

Tariff adjustment represents subsidy received and receivable from the local government authorities in respect of the Group's power generation business. Tariff adjustment is recognised at its fair value where there is reasonable assurance that the additional tariff will be received and the Group with comply with all attached conditions, if any.

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(aa) Revenue recognition *(Continued)*

Consultancy fees, handling charges, repair services income and cleaning income are recognised when the related services are rendered.

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established. Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

(bb) Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary assets and liabilities measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised in other comprehensive income.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. "HK$") using exchange rate prevailing at the end of the reporting period. Income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of the translation reserve (attributed to non-controlling interest as appropriate).

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(bb) Foreign currencies *(Continued)*

Goodwill and fair value adjustments on identifiable assets acquired and liabilities assumed arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and retranslated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In the case of a partial disposal of a subsidiary that includes a foreign operation that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates that do not result in the Group losing significant influence), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

(cc) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exception:

– property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease; and

– land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(cc) Leased assets *(Continued)*

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property or is held for development for sale.

(dd) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(ee) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(ff) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's board of directors for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

4. CORRECTION OF PRIOR YEAR ERRORS

During the course of preparing the Group's financial statements for the year ended 31 December 2013, it has come to the attention of the directors of the Company that the prior year financial statements of the Group and the Company contained errors.

The Group

Certain inventories were erroneously classified as amounts due from customers for contract works at 31 December 2012 (HK$10,008,000), certain amounts due from customers for contract works were erroneously classified as amounts due to customers for contract work at 31 December 2012 (HK$2,755,000) and certain contract revenues collected prior to 31 December 2011 were erroneously accounted for and remained as amounts due from customers for contract works at 31 December 2012. The following tables are details of the adjustments that have been made in order to rectify the above errors to each of the line items in the consolidated statement of financial position and consolidated statement of profit or loss and other comprehensive income as previously reported as at and for the year ended 31 December 2012.

Consolidated statement of financial position
As at 31 December 2012

	2012 (as previously reported) *HK$'000*	Reclassification of inventories, amounts due from customers for contract works and amounts due to customers for contract works *HK$'000*	Incorrect accounting for contract revenues collected prior to 31.12.2011 *HK$'000*	2012 (as restated) *HK$'000*
Inventories	57,946	10,008	–	67,954
Amounts due from customers for contract works	29,713	(7,253)	(19,705)	2,755
Amounts due to customers for contract works	(18,158)	(2,755)	–	(20,913)
Share premium and reserves	80,173	–	10,050	90,223
Non-controlling interests	(229,559)	–	9,655	(219,904)

Consolidated statement of profit or loss and other comprehensive income
For the year ended 31 December 2012

	2012 (as previously reported) *HK$'000*	Incorrect accounting for contract revenues collected prior to 31.12.2011 *HK$'000*	2012 (as restated) *HK$'000*
Exchange difference on translation of financial statements of overseas subsidiaries	5,023	(203)	4,820
Attributable to:			
Owners of the Company	30,538	(104)	30,434
Non-controlling interests	29,204	(99)	29,105

4. CORRECTION OF PRIOR YEAR ERRORS *(Continued)*

The Company

Certain other receivables of the Company were impaired on consolidation level but not on company level for the year ended 31 December 2012. The following tables are details of the adjustments that have been made in order to rectify the above errors to each of the line items in the statement of financial position of the Company as previously reported as at 31 December 2012.

	2012 (as previously reported) *HK$'000*	Impairment of other receivables *HK$'000*	2012 (as restated) *HK$'000*
Other receivables	2,005	(1,712)	293
Share premium and reserves	3,583	(1,712)	1,871

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgments in applying the entity's accounting policies

The following are the critical judgments, apart from those involving estimations, that the directors of the Company have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in consolidated financial statements.

(i) Buildings and land use rights

Despite the Group has paid the purchase consideration as detailed in notes 18 and 19, certain of the Group's rights to use of the buildings and land were not granted formal titles from the relevant government authorities. The directors of the Company are of the opinion that the risks and rewards of using these assets have been transferred to the Group and the absence of formal titles to these buildings and land use rights do not impair the value of the relevant properties to the Group.

(ii) Control of Hainan Danzhou Tap Water Company Limited ("Danzhou Tap Water")

As detailed in note 31, all equity interests of Danzhou Tap Water owned by the Group were frozen by Higher People's Court of Hainan Province from 15 December 2010 (the "Court Order") to 14 December 2013. The directors of Company are of the opinion that after having sought the legal advice from the Company's lawyer, the control of Danzhou Tap Water during this period still existed, accordingly, the asset, liabilities and financial results of Danzhou Tap Water has been incorporated in the consolidated financial statements for the years ended 31 December 2013 and 2012.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(i) Useful lives and impairment assessment of property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and identified impairment losses. The estimation of useful lives impacts the level of annual depreciation expenses recorded. Property, plant and equipment are evaluated for possible impairment on a specific asset basis or in groups of similar assets, as applicable. This process requires management's estimate of future cash flows generated by each asset or group of assets. For any instance where this evaluation process indicates impairment, the relevant asset's carrying amount is written down to the recoverable amount and the amount of the write-down is charged against profit or loss.

(ii) Impairment loss recognised in respect of property, plant and equipment

As at 31 December 2013, the carrying amount of property, plant and equipment was approximately HK$161,433,000 (net of accumulated impairment loss of approximately HK$21,096,000) (2012: the carrying amount of property, plant and equipment was approximately HK$111,733,000 (net of accumulated impairment loss of approximately HK$20,456,000)). Determining whether property, plant and equipment are impaired requires an estimation of the recoverable amount of the property, plant and equipment. Such estimation was based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results.

(iii) Impairment loss recognised in respect of prepaid lease payments

As at 31 December 2013, the carrying amount of prepaid lease payments was approximately HK$42,688,000 (net of accumulated impairment loss of approximately HK$2,804,000) (2012: the carrying amount of prepaid lease payments was approximately HK$42,881,000 (net of accumulated impairment loss of approximately HK$2,719,000)). Determining whether prepaid lease payments are impaired requires an estimation of the recoverable amount of the prepaid lease payments. Such estimation was based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

(iv) Impairment loss recognised in respect of trade receivables

The Group performs ongoing credit evaluations of its customers and adjusts credit limits based on payment history and the customer's current credit-worthiness, as determined by review of their current credit information. The Group continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses based upon its historical experience. Credit losses have historically been within the Group's expectations and the Group will continue to monitor the collections from customers and maintain an appropriate level of estimated credit losses. As at 31 December 2013, the carrying amount of trade receivables was approximately HK$33,186,000 (2012: HK$21,712,000) (net of accumulated impairment losses of approximately HK$7,604,000 (2012: HK$6,733,000)).

(v) Impairment loss recognised in respect of other receivables and loans receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2013, the carrying amounts of other receivables and loans receivables are HK$29,183,000 (2012: HK$4,204,000) and HK$27,000,000 (2012: HK$28,000,000) respectively (net of accumulated impairment losses of HK$9,090,000 (2012: HK$9,453,000) and HK$54,844,000 (2012: HK$67,549,000) respectively).

(vi) Impairment loss of concession intangible assets and exclusive rights

The Group determines whether an asset is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the asset is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. A change in the estimated future cash flows and/or the discount rate applied will result in an adjustment to the estimated impairment provision. As at 31 December 2013, the carrying amounts of concession intangible assets are HK$622,630,000 (2012: HK$530,591,000) (net of accumulated impairment losses of HK$46,747,000 (2012: HK$45,328,000)). As at 31 December 2013, the carrying amounts of exclusive rights are HK$40,828,000 (2012: nil) (net of nil accumulated impairment losses).

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

(vii) Impairment of available-for-sale investments

The Group determines that available-for-sale investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the duration and extent to which the fair value of the investment is less than its cost. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, industry and sector performance, change in technology and operational and financing cash flows. As at 31 December 2013, the carrying amount of available-for-sale investments was approximately HK$95,781,000 (2012: HK$68,439,000).

(viii) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2013, the carrying amount of goodwill was HK$18,935,000 (2012: HK$10,292,000) (net of accumulated impairment losses of HK$251,933,000 (2012: HK$251,933,000)). Details of impairment testing on goodwill are set out in note 22.

(ix) Revenue from construction contracts

Revenue from construction contracts of certain water supply and sewage treatment of the Group are recognised by reference to the stage of completion of the contract activity at the end of the reporting period. In recognition of profit and loss on the construction contracts, the management makes their best estimation of the future expected revenue from the contracts and future expected cost to complete the job. The estimates are determined by the management based on the current market conditions and expected time cost, material cost, other overhead expense to be incurred, expectations of future changes in the market and experience of similar transactions. Any change in these estimates will have an impact on the amount of contract revenue or contract loss.

6. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes various types of borrowings, cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and accumulated losses.

The directors of the Company review the capital structure regularly. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on the recommendations of the directors of the Company, the Group will balance its overall capital structure through the raise of various types of borrowings, issuance of convertible bonds and new shares.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

The Group monitors its capital structure on the basis of a gearing ratio. This ratio is calculated as net debt divided by equity attributable to owners of the Company. Net debt is calculated as total borrowings less cash and cash equivalents.

The gearing ratios as at 31 December 2013 and 2012 were as follows:

	2013 ***HK$'000***	2012 *HK$'000* (Restated)
Bank borrowings	**68,826**	80,485
Other loans	**118,341**	89,045
Amounts due to non-controlling shareholders of subsidiaries	**3,803**	4,108
Loan from an associate	**3,178**	2,931
Convertible bonds	**107,352**	–
Total debt	**301,500**	176,569
Less: Cash and cash equivalents	**(250,564)**	(239,249)
Net debt	**50,936**	(62,680)
Equity attributable to owners of the Company	**543,674**	464,943
Gearing ratio	**9.37%**	Not applicable

7. FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS

The Group's major financial instruments include available-for-sale investments, trade and other receivables, cash held at financial institutions, bank balances and cash, trade and other payables, amount due to non-controlling shareholders of subsidiaries, bank borrowings, other loans, loan from an associate and convertible bonds. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(a) Credit risk

(i) Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults.

(ii) The Group's credit risk is primarily attributable to trade and other receivables. In order to minimise risk, the management has policies in place to ensure that sales of products and services are made to customers with appropriate credit history, and trade receivables consist of a large number of customers, spread across diverse industries. The Group has adopted a policy of only dealing with creditworthy counterparties. The Group only transacts with entities with good repayment history and focuses on the debtor's current ability to pay. Normally, the Group does not obtain collateral from its customers.

(iii) The Group's exposure to credit risk is influenced by geographical locations. The Group's concentration of credit risk by geographical locations is wholly in the PRC, accounted for the entire total trade receivables as at 31 December 2013 and 2012.

(iv) The Company's credit risk is primarily attributable to amounts due from subsidiaries and loan receivables. The Company reviews the recoverable amounts of individual debts at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts.

7. FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

(a) Credit risk *(Continued)*

(vi) The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

(vii) As at 31 December 2013, the Group had credit risk on loan receivables. The carrying amount of the loan receivables are approximately HK$27,000,000 (2012: HK$28,000,000) (net of accumulated impairment losses of HK$54,844,530 (2012: HK$67,549,000)).

(viii) As at 31 December 2013, the Group and the Company had credit risk arising from available-for-sale investments as 31% (2012: 43%) and 31% (2012: 59%) of the listed securities cannot be traded in the Stock Exchange, respectively. For other financial assets, such as cash held at financial institutions and available-for-sale investments, the Group limited its exposure to credit risk by transacting the majority of its securities with broker-dealers and regulated exchanges with high credit rating of which the Group considered to be well established. All transactions in listed securities are settled/paid for upon delivery using approved and reputable brokers.

(ix) In respect of amounts due from subsidiaries, the Company has concentration of credit risk as 89% (2012: 82%) of the amounts due from subsidiaries are owed from 4 (2012: 4) subsidiaries.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to board approval. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with loan covenants to ensure that it maintains sufficient amount of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table details the Group's and the Company's remaining contractual maturities for its financial liabilities. The table has been drawn up based on undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is calculated based on interest rate current at the end of the reporting period.

7. FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

(b) Liquidity risk *(Continued)*

The Group

2013

	On demand *HK$'000*	Within 1 year *HK$'000*	More than 1 year but less than 2 years *HK$'000*	More than 2 years but less than 5 years *HK$'000*	More than 5 years *HK$'000*	Total contractual undiscounted cash flow *HK$'000*	Carrying amount *HK$'000*
Non-derivative financial liabilities							
Trade and other payables	11,922	81,307	–	–	–	93,229	93,229
Bank borrowings and other loans	11,079	102,318	11,773	22,912	47,994	196,076	187,167
Amounts due to non-controlling shareholders	3,803	–	–	–	–	3,803	3,803
Loan from an associate	–	3,373	–	–	–	3,373	3,178
Convertible bonds	–	108,250	–	–	–	108,250	107,352
	26,804	295,248	11,773	22,912	47,994	404,731	394,729

2012

	On demand *HK$'000*	Within 1 year *HK$'000*	More than 1 year but less than 2 years *HK$'000*	More than 2 years but less than 5 years *HK$'000*	More than 5 years *HK$'000*	Total contractual undiscounted cash flow *HK$'000*	Carrying amount *HK$'000*
Non–derivative financial liabilities							
Trade and other payables	1,618	134,508	–	–	–	136,126	136,126
Bank borrowings and other loans	37,319	68,638	16,509	34,861	25,787	183,114	169,530
Amounts due to non-controlling shareholders	4,108	–	–	–	–	4,108	4,108
Loan from an associate	–	3,102	–	–	–	3,102	2,931
	43,045	206,248	16,509	34,861	25,787	326,450	312,695

7. FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

(b) Liquidity risk *(Continued)*

The Company

2013

	On demand HK$'000	Within 1 year HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	More than 5 years HK$'000	Total contractual undiscounted cash flow HK$'000	Carrying amount HK$'000
Non-derivative financial liabilities							
Other payables	–	3,252	–	–	–	3,252	3,252
Convertible bonds	–	108,250	–	–	–	108,250	107,352
	–	111,502	–	–	–	111,502	110,604

2012

	On demand HK$'000	Within 1 year HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	More than 5 years HK$'000	Total contractual undiscounted cash flow HK$'000	Carrying amount HK$'000
Non-derivative financial liabilities							
Other payables	–	500	–	–	–	500	500

(c) Market risk

(i) Currency risk

Exposure to currency risk

Other than the subsidiaries established in the PRC whose functional currency is RMB, the Company and its subsidiaries' functional currency is HK$. Certain bank balances and other receivables are denominated in currencies other than functional currencies expose to foreign currency risk. Foreign currencies are used to settle expenses for overseas operations.

The following table details the Group's and the Company's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Hong Kong dollars, translated using the spot rate at the end of the reporting period.

7. FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

(c) Market risk *(Continued)*

(i) Currency risk (Continued)

	2013	2012
	HK$'000	*HK$'000*
The Group		
Assets		
– USD	**129**	129
– RMB	**10,627**	10,780

	2013	2012
	HK$'000	*HK$'000*
The Company		
Assets		
– USD	**129**	129

The Group currently does not have a foreign currency hedging policy but the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the needs arise.

Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit and the Company's loss after tax (and accumulated losses) that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies.

7. FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

(c) Market risk *(Continued)*

(i) Currency risk (Continued)

The Group

	2013		2012	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax and accumulated losses**	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and accumulated losses
		$'000		*$'000*
Renminbi	**5%**	**444**	5%	450
	(5)%	**(444)**	(5)%	(450)

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which exposes the Group to foreign currency risk at the end of the reporting period. As HK$ is pegged to USD, directors do not expect any significant movements in the USD/HK$ exchange rate. The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the end of next annual reporting period. The analysis is performed on the same basis for 2012.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure at the end of the reporting period does not reflect the exposure during the year.

7. FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

(c) Market risk *(Continued)*

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to cash and cash equivalents, bank borrowings, other loans, amounts due to non-controlling shareholders of subsidiaries, loan from an associate and convertible bonds (see notes 28, 31, 32, 33, 34 and 35 for details) for the years ended 31 December 2013 and 2012. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated.

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank borrowings and other loans (see notes 31 and 32 for details) for the years ended 31 December 2013 and 2012.

The Group is also exposed to cash flow interest rate risk relates to bank balances and cash held at financial institutions carried at prevailing market rate. However, such exposure is minimal to the Group as the bank balances and cash held at financial institutions are all short-term in nature.

The following table details the interest rate profile of the Group's and the Company's interest generating financial assets and interest-bearing financial liabilities at the end of the reporting period:

7. FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

(c) Market risk *(Continued)*

(ii) Interest rate risk (Continued)

	The Group			
	2013		2012	
	Effective interest rates %	HK$'000	Effective interest rates %	HK$'000
Fixed rate borrowings:				
Bank borrowings	5.94%-6.9%	44,148	5.94%	29,918
Other loans	0%-20%	81,121	0%-20%	51,115
Amounts due to non-controlling shareholders of subsidiaries	0%	3,803	0%	4,108
Loan from an associate	6.15%	3,178	5.83%	2,931
Convertible bonds	24.67%	107,352	–	–
		239,602		88,072
Variable rate borrowings:				
Bank borrowings	6.15%-7.8%	24,678	6.6%-7.8%	50,567
Other loans	5.05%	37,220	5.05%	37,930
		61,898		88,497
Total borrowings		301,500		176,569
Fixed rate borrowings as a percentage of total borrowings		79%		50%
Variable rate:				
Cash held by financial institutions	0%-0.001%	8,797	0%-0.001%	38,045
Bank balances and cash	0%-0.35%	241,767	0%-0.35%	201,204
		250,564		239,249

7. FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

(c) Market risk *(Continued)*

(ii) Interest rate risk (Continued)

	The Company			
	2013		2012	
	Effective interest rates %	***HK$'000***	Effective interest rates %	*HK$'000*
Fixed rate borrowings:				
Convertible bonds	**24.67%**	**107,352**	–	–
Total borrowings		**107,352**		–
Fixed rate borrowings as a percentage of total borrowings		**100%**		–
Variable rate:				
Cash held at financial institutions	**0%-0.001%**	**8,766**	0%-0.001%	34,097
Cash at banks	**0%-0.001%**	**248**	0%-0.001%	24,515
		9,014		58,612

Sensitivity analysis

If interest rates had been 50 basis points (2012: 50 basis points) higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2013 would decrease/increase by approximately HK$232,000 (2012: HK$332,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings and other loans.

The sensitivity analyses above have been determined based on the exposure to interest rates at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. The 50 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next annual reporting period.

7. FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

(c) Market risk *(Continued)*

(iii) Equity price risk

The Group is exposed to equity price risk through its investments in listed equity securities. The management manages this exposure by maintaining a portfolio of investments with different risks. The Group's equity price risk is mainly concentrated on equity instruments quoted in the Stock Exchange. In addition, the Group has a team to monitor the price risk and will consider hedging the risk exposure should the needs arise.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date. If the prices of the respective equity instruments had been 10% (2012: 5%) higher/lower, the investment revaluation reserve would increase/decrease by HK$9,578,000 (2012: HK$3,422,000) for the Group as a result of the changes in fair value of available-for-sale investments.

The Group is also exposed to price risk in fair value of conversion rights of the convertible bonds. A rise of the stock price will be accompanied by an increase in the fair value of the conversion rights which will increase the liability of the Group.

(d) Fair value measurements

(i) Financial assets and liabilities measured at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13 Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

- Level 3 valuations: Fair value measured using significant unobservable inputs

The Company's directors are responsible to determine the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engaged third party qualified valuers to perform the valuation. The Company's directors work closely with qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

Information about the valuation techniques and inputs used in determining the fair value of the conversion option of the convertible bonds are disclosed in note 35 to the financial statements.

7. FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

(d) Fair value measurements *(Continued)*

(i) Financial assets and liabilities measured at fair value (Continued)

2013	The Group				The Company			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Recurring fair value measurements								
Assets								
Available-for-sale investments	**65,883**	**–**	**29,898**	**95,781**	**65,883**	**–**	**29,898**	**95,781**
Liabilities								
Conversion feature of the convertible bond	**–**	**–**	**17,706**	**17,706**	**–**	**–**	**17,706**	**17,706**

2012	The Group				The Company			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Recurring fair value measurements								
Assets								
Available-for-sale investments	38,541	–	29,898	68,439	38,541	–	29,898	68,439

During the years ended 31 December 2013 and 2012, there were no significant transfers between instruments levels.

7. FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

(d) Fair value measurements *(Continued)*

(i) Financial assets and liabilities measured at fair value (Continued)

Information about Level 3 fair value measurements:–

As disclosed in note 23 to the consolidated financial statements, the Group had an investment in listed equity securities in Hong Kong with a carrying value of HK$29,898,000 as at 31 December 2013.

The trading of the listed equity investments was suspended during the years ended 31 December 2013 and 2012. The directors of the Company considered that there was no material change in the fair value of the listed equity investments since its date of suspension of trading.

The fair value of conversion feature of the convertible bonds was valued by estimating the value of the whole bond with and without the embedded derivatives.

As for the change in Level 3 instruments for the year ended 31 December 2013, please refer to note 35.

The most significant inputs in determining the fair value of conversion rights of convertible bonds are market price of the Company and volatility rate of market price of the Company. If the market price had been 10% higher/lower than management's estimates at 31 December 2013, it would have an increased/decreased by HK$7,284,000/HK$6,123,000 for fair value of conversion rights. If the volatility rate had been of 5% higher/lower than management's estimates at 31 December 2013, it would have an increased/decreased by HK$1,635,000/HK$1,641,000 for fair value of conversion rights.

(ii) Financial assets and liabilities measured at other than fair value

The fair value of the liability component of the convertible bonds at 31 December 2013 amounted to approximately HK$101.6 million. The fair value is calculated using discounted cash flow analysis and is within Level 3 of the fair value hierarchy.

The carrying amounts of the Group's and the Company's other financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2013 and 2012.

(e) Estimation of fair values

The following methods and assumptions were used to estimate the fair value for each class of financial instruments:

(i) Interest-bearing borrowings

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

(ii) Derivatives

The estimates of the fair value of the conversion option embedded in the convertible bonds are determined based on valuation models at the end of the reporting period. Details of the assumptions adopted are disclosed in note 35.

8. REVENUE

Revenue represents revenue arising from the provision of water supply services, sewage treatment services, water supply related installation and construction income, and water supply and sewage treatment infrastructure construction income for the year.

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

	2013	2012
	HK$'000	*HK$'000*
Water supply services	**133,595**	118,903
Sewage treatment services	**47,035**	38,006
Water supply related installation and construction income	**222,295**	144,817
Water supply and sewage treatment infrastructure construction income	**102,369**	26,159
Others	**5,665**	–
	510,959	327,885

Others represented sales of electricity to a provincial power grid company and tariff adjustment received and receivable from a relevant government authority.

9. SEGMENT INFORMATION

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the board of directors of the Company, being the chief operating decision maker, for the purposes of resources allocation and assessment of the performance of the Group's various lines of business and geographical locations. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

The Group manages its businesses by divisions, which are organised by business lines. The Group's revenue and contribution to profit are mainly derived from provision of water supply and sewage treatment as well as construction services primarily in the PRC, which is regarded as a single reportable operating segment in a manner consistent with the way in which information is reported internally to the Group's board of directors for purposes of resources allocation and performance assessment. Accordingly, no segment analysis is presented.

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 2013 and 2012, the Group does not have any single significant customer with the transaction value over 10% of the turnover.

10. OTHER OPERATING INCOME

	2013 HK$'000	2012 HK$'000
Interest income on:		
– bank deposits	**895**	664
– loans *(note a and note 27)*	**25,208**	19,756
Government grants *(notes 32 and 37)*	**3,223**	39,993
Consultancy fee income	**–**	7,374
Handling charges	**1,207**	1,835
Cleaning income	**1,135**	1,636
Repair services income	**2,270**	1,530
Gross rentals from investment property	**1,317**	617
Late surcharge income	**397**	288
Gain on disposal of property, plant and equipment and prepaid lease payments	**2,569**	–
Others	**2,246**	2,837
	40,467	76,530

Note: (a) During 2013, the Company earned interest income of HK$17.3 million on advances made to unrelated parties of RMB60 million, which was interest bearing at roughly 30% per annum and had been fully repaid by 31 December 2013.

11. FINANCE COSTS

	2013 HK$'000	2012 HK$'000
Interest on:		
– convertible bonds *(note 35)*	**3,481**	20,899
– bank borrowings wholly repayable within five years	**10,620**	7,470
– other loans wholly repayable within five years	**3,371**	2,327
– other loans wholly repayable after five years	**–**	904
– loan from an associate	**154**	144
Total borrowing cost	**17,626**	31,744
Less: interest capitalised included in construction in progress	**(2,274)**	–
	15,352	31,744

Included in construction-in-progress under concession intangible assets and property, plant and equipment is accumulated interest capitalised of HK$2,274,000 at the capitalisation rates ranging from 2.33% to 20% per annum.

12. INCOME TAX EXPENSE

	2013	2012
	HK$'000	*HK$'000*
PRC Enterprise Income Tax ("EIT") for the current year	**41,345**	32,039
Over-provision of EIT in respect of prior years	**(557)**	–
Deferred tax *(note 38)*	**5,909**	3,959
	46,697	35,998

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Company did not have assessable profits subject to Hong Kong Profits Tax for both years.

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% of estimated assessable profits for both years, except disclosed as follows:

Gaoming Huaxin and Nanjing Feng Shang are engaged in sewage treatment and provision of electricity supply, 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 and Nanjing Feng Shang were 2011 and 2012, respectively. Accordingly, Gaoming Huaxin is exempted from PRC income tax from 1 January 2011 to 31 December 2013 and is entitled to a 50% exemption of income tax from 1 January 2014 to 31 December 2016. Nanjing Feng Shang is exempted from PRC income tax from 1 January 2012 to 31 December 2014 and is entitled to a 50% exemption of income tax from 1 January 2015 to 31 December 2017.

12. INCOME TAX EXPENSE *(Continued)*

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

	2013 HK$'000	2012 HK$'000
Profit before tax	**152,657**	81,920
Tax at the domestic income tax rate of 25% (2012: 25%)	**38,164**	20,480
Tax effect of share of results of associate	**567**	1,463
Tax effect of expenses not deductible for tax purposes	**8,035**	10,201
Tax effect of income not taxable for tax purposes	**(511)**	(6,553)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**2,447**	1,330
Effect of tax exemption granted to PRC subsidiaries	**(3,713)**	(104)
Tax effect of tax losses and deductible temporary differences not recognised	**2,522**	7,199
Utilisation of tax losses previously not recognised	**(4,383)**	–
Deferred tax liabilities arising on undistributed profit of PRC subsidiaries	**4,126**	1,982
Over provision in respect of prior years	**(557)**	–
	46,697	35,998

13. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

	2013 HK$'000	2012 HK$'000
Staff costs excluding directors' and chief executive's emoluments		
– Salaries, wages and other benefits	**72,532**	60,275
– Retirement benefits scheme contributions	**10,022**	5,133
Total staff costs	**82,554**	65,408
Amortisation of:		
– Prepaid lease payments	**1,286**	1,247
– Concession intangible assets (included in cost of sales)	**29,451**	23,562
– Other intangible assets (included in cost of sales)	**583**	–
Concession intangible assets written off	**82**	155
Depreciation of property, plant and equipment	**10,634**	6,845
(Gain) loss on disposal of property, plant and equipment and prepaid lease payment	**(2,569)**	44
Impairment loss recognised on available-for-sale investments	**–**	1,114
(Gain) loss on disposal of available-for-sale investments	**(6,823)**	1,554
Auditors' remuneration – audit services	**800**	900
Minimum lease payments under operating leases	**3,336**	2,880
Cost of inventories	**81,728**	57,617

14. EMOLUMENTS OF DIRECTORS AND CHIEF EXECUTIVE AND INDIVIDUALS WITH HIGHEST EMOLUMENTS

(a) The emoluments paid or payable to each of the 8 (2012: 13) directors and chief executive were as follows:

Name	Fees	Salaries, allowance and benefits in kind	Retirement benefits scheme contributions	2013 Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive Directors				
Wang De Yin	–	1,995	13	2,008
Liu Feng	–	846	14	860
Lin Yue Hui	–	996	14	1,010
Chu Yin Yin, Georgiana	–	1,011	15	1,026
Deng Xiao Ting[1]	–	1,107	–	1,107
	–	5,955	56	6,011
Independent Non-Executive Directors				
Guo Chao Tian[2]	120	–	–	120
Li Jian Jun[3]	120	–	–	120
Wong Siu Keung, Joe[4]	120	–	–	120
	360	–	–	360
	360	5,955	56	6,371

Mr. Wang De Yin is appointed as the chief executive of the Company on 19 July 2012 and his emoluments disclosed above and below include those for services rendered by him as the chief executive.

14. EMOLUMENTS OF DIRECTORS AND CHIEF EXECUTIVE AND INDIVIDUALS WITH HIGHEST EMOLUMENTS *(Continued)*

(a) *(Continued)*

Name	Fees	Salaries, allowance and benefits in kind	Retirement benefits scheme contributions	2012 Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive Directors				
Wang De Yin	–	921	3	924
Liu Feng	–	325	1	326
Lin Yue Hui	–	325	1	326
Chu Yin Yin, Georgiana	–	585	14	599
Deng Xiao Ting[1]	–	148	–	148
Tang Hui Ping, Paul[5]	–	265	8	273
Yang Bin[6]	–	185	4	189
	–	2,754	31	2,785
Independent Non-Executive Directors				
Guo Chao Tian[2]	71	–	–	71
Li Jian Jun[3]	34	–	–	34
Wong Siu Keung, Joe[4]	29	–	–	29
Chang Kin Man[7]	93	–	–	93
Wu Tak Lung[8]	120	–	–	120
Gu Wen Xuan[9]	55	–	–	55
	402	–	–	402
	402	2,754	31	3,187

1 Appointed on 19 July 2012
2 Appointed on 15 June 2012
3 Appointed on 28 September 2012
4 Appointed on 10 October 2012
5 Resigned on 19 July 2012
6 Resigned on 23 April 2012
7 Resigned on 10 October 2012
8 Resigned on 28 September 2012
9 Resigned on 15 June 2012

Mr. Yang Bin, who resigned on 23 April 2012, was also the chief executive of the Company and his emoluments disclosed above include those for services rendered by him as the chief executive up to the date of his resignation.

There was no arrangement under which directors and chief executive waived or agreed to waive any emoluments during the two years ended 31 December 2013 and 2012.

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

14. EMOLUMENTS OF DIRECTORS AND CHIEF EXECUTIVE AND INDIVIDUALS WITH HIGHEST EMOLUMENTS *(Continued)*

(b) Individuals with highest emoluments

Of the five individuals with the highest emoluments, all (2012: two) were directors and chief executive whose emoluments are set out in (a) above. The emoluments of the remaining nil (2012: three) highest paid individuals were as follows:

	2013 *HK$'000*	2012 *HK$'000*
Salaries, allowance and benefits in kind	–	1,151
Retirement benefits scheme contributions	–	41
	–	1,192

The emoluments were within the following bands:

	2013 Number of individuals	2012 Number of individuals
Nil to HK$1,000,000	–	3

15. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit attributable to owners of the Company includes a loss of HK$17,064,000 (2012: HK$491,603,000) which has been dealt with in the financial statements of the Company.

16. DIVIDENDS

No dividend was paid or proposed during the year ended 31 December 2013, nor has any dividend been proposed since the end of the reporting period (2012: nil).

17. EARNINGS PER SHARE

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

	2013 *HK$'000*	2012 *HK$'000*
Profit for the purposes of basic and diluted earnings per share	**61,419**	22,016
	'000	*'000*
Weighted average number of ordinary shares – basic and diluted	**1,110,332**	556,123

Diluted earnings per share were the same as the basic earnings per share for the years ended 31 December 2013 and 2012, as the effect of conversion of the Company's outstanding convertible bonds would result in an increase in earnings per share.

18. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings HK$'000	Plant and machinery HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Water pipeline HK$'000	Construction in progress HK$'000	Total HK$'000
COST:							
At 1 January 2012	44,685	1,891	9,155	11,907	51,895	19,486	139,019
Additions	465	1,689	1,589	3,279	1,000	20,448	28,470
Transfer	7,913	–	–	–	–	(7,913)	–
Transfer to investment property	(7,578)	–	–	–	–	–	(7,578)
Disposals	(24)	(164)	(176)	(1,623)	–	–	(1,987)
Exchange realignment	395	25	67	103	596	206	1,392
At 31 December 2012 and 1 January 2013	45,856	3,441	10,635	13,666	53,491	32,227	159,316
Additions	1,405	4,875	880	5,211	–	21,085	33,456
Construction expenditure capitalised	–	–	–	–	–	688	688
Transfer	1,377	–	–	–	2,604	(3,981)	–
Disposal	(2,821)	(418)	(1,134)	(892)	–	–	(5,265)
Acquisitions through business combinations	1,639	19,437	120	2,156	–	–	23,352
Exchange realignment	1,147	401	156	437	1,724	1,176	5,041
At 31 December 2013	**48,603**	**27,736**	**10,657**	**20,578**	**57,819**	**51,195**	**216,588**
ACCUMULATED DEPRECIATION AND IMPAIRMENT:							
At 1 January 2012	5,763	738	1,627	3,546	29,717	378	41,769
Provided for the year	1,221	273	777	1,744	2,830	–	6,845
Impairment loss for the year	–	–	–	–	35	–	35
Eliminated on disposal	(7)	(132)	(130)	(1,208)	–	–	(1,477)
Exchange realignment	58	8	16	33	292	4	411
At 31 December 2012 and 1 January 2013	7,035	887	2,290	4,115	32,874	382	47,583
Provided for the year	1,873	2,766	949	2,852	2,194	–	10,634
Eliminated on disposal	(2,794)	(45)	(753)	(354)	–	–	(3,946)
Exchange realignment	208	54	64	165	381	12	884
At 31 December 2013	**6,322**	**3,662**	**2,550**	**6,778**	**35,449**	**394**	**55,155**
CARRYING VALUES:							
At 31 December 2013	**42,281**	**24,074**	**8,107**	**13,800**	**22,370**	**50,801**	**161,433**
At 31 December 2012	38,821	2,554	8,345	9,551	20,617	31,845	111,733

The buildings are situated in the PRC and are situated on land under medium-term land use rights.

As at 31 December 2013, the property usage permits of certain buildings have not been granted by relevant government authorities with the aggregate carrying values of approximately HK$2,705,000 (2012: HK$2,815,000). Based on the legal advice from the Company's lawyers, the absence of property usage permits to these buildings does not impair the value of the relevant buildings to the Group.

As at 31 December 2013, the Group has pledged buildings with carrying amount of approximately HK$1,034,000 (2012: HK$2,147,000) to secure the bank and other borrowings granted to the Group.

18. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

In light of the continuing loss-making of certain subsidiaries situated in the PRC, an impairment assessment has been performed by the directors of the Company to determine the recoverable amount of these property, plant and equipment. The directors of the Company engaged AVISTA Valuation Advisory Limited ("AVISTA"), a professionally qualified valuer not connected with the Group to perform a valuation of these property, plant and equipment in order to provide them with the impairment assessment. Having regard to the future plan of the Group and the valuation performed by AVISTA, no impairment loss (2012: HK$35,000) was made to the carrying amounts of the property, plant and equipment for the year ended 31 December 2013. The recoverable amounts of the relevant assets have been determined on the basis of their value in use. The discount rates in measuring the amounts of value in use were ranged from 12% to 14% in 2012.

19. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments in relation to land use rights are under medium-term leases in the PRC, and analysed for reporting purposes as follows:

	The Group	
	2013	2012
	HK$'000	*HK$'000*
CARRYING VALUES:		
At 1 January	**42,881**	44,233
Amortisation for the year	**(1,286)**	(1,247)
Eliminated on disposal	**(308)**	–
Impairment loss for the year	**–**	(584)
Exchange realignment	**1,401**	479
At 31 December	**42,688**	42,881
Current assets	**1,307**	1,252
Non-current assets	**41,381**	41,629
	42,688	42,881

At 31 December 2013, legal titles to land use rights with carrying values of approximately HK$4,972,000 (2012: HK$14,955,000) have not been granted by the relevant government authorities. Based on the legal advice from the Company's lawyers, the absence of land use rights certificate does not impair the value of the relevant land use rights to the Group.

The Group is in the process of obtaining the relevant State-owned Land Use Rights Certificate as of December 31, 2013.

As at 31 December 2013, the Group had pledged prepaid lease payments with carrying amount of approximately HK$nil (2012: HK$10,422,000) to secure bank and other borrowings granted to the Group.

19. PREPAID LEASE PAYMENTS *(Continued)*

In light of the continuing loss-making of certain subsidiaries situated in the PRC, an impairment assessment has been performed by the directors of the Company to determine the recoverable amount of these prepaid lease payments. The directors of the Company engaged AVISTA to perform a valuation of these prepaid lease payments in order to provide them with the impairment assessment. Having regard to the future plan of the Group and the valuation performed by AVISTA, no impairment loss (2012: HK$584,000) was made to the carrying amounts of the prepaid lease payments for the year ended 31 December 2013. The recoverable amounts of the relevant assets have been determined on the basis of their value in use. The discount rates in measuring the amounts of value in use were 12% in 2012.

As of December 31, 2013, a deposit of HK$40,701,000 (2012: nil) was paid and payable for the land use rights over a parcel of land in Yingtan, Jiangxi Province, the PRC. The outstanding amount of HK$52,784,000 as of December 31, 2013 is disclosed as a capital commitment in note 40.

20. CONCESSION INTANGIBLE ASSETS

	The Group	
	2013	2012
	HK$'000	*HK$'000*
COST		
At 1 January	**664,617**	624,181
Additions	**103,956**	31,011
Written off	**(105)**	(183)
Exchange realignment	**22,286**	9,608
At 31 December	**790,754**	664,617
ACCUMULATED AMORTISATION AND IMPAIRMENT		
At 1 January	**134,026**	103,704
Provided for the year	**29,451**	23,562
Impairment loss for the year	**–**	6,118
Eliminated on written off	**(23)**	(28)
Exchange realignment	**4,670**	670
	168,124	134,026
CARRYING VALUES		
At 31 December	**622,630**	530,591

20. CONCESSION INTANGIBLE ASSETS *(Continued)*

The subsidiaries of the Group, Yichun Water, Linyi Fenghuang, Danzhou Tap Water and Yingtan Water Supply entered into service concession arrangements with the respective local government whereby the above subsidiaries are required to build the infrastructure of water supply plant and was granted with an exclusive operating right for provision of water supply services to the public users for a period of 30 years commencing from the operation of the respective water supply plant.

The subsidiaries of the Group, Yichun Fangke, Jining Haiyuan and Gaoming Huaxin entered into service concession arrangements with the respective local government whereby the above subsidiaries are required to build the infrastructure of sewage treatment plant and was granted with an exclusive operating right for provision of sewage treatment services to the public users for a period ranging from 25 to 29 years, commencing from the operation of the respective waste treatment plant.

Amortisation for the above concession intangible assets has been provided on a straight-line basis over the remaining terms of the operating rights, ranging from 25 to 30 years, since commencement of operations. The receipt from these service concession arrangement are contingent on the extent that public uses the services.

As at 31 December 2013, no concession intangible assets had been pledged (2012: HK$18,442,000) to secure bank borrowings granted to the Group.

The recoverable amounts of the concession intangible assets have been determined by using value-in-use calculation with reference to the valuation performed by AVISTA. The calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and pre-tax discount rate of 12% in 2012. Cash flows beyond the 5-year period have been extrapolated using a steady 2% growth rate in 2012. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. The directors of the Company were of the opinion that the recoverable amount is less than its respective carrying amount as at 31 December 2012, accordingly an impairment loss of approximately HK$6,118,000 was recognised. No impairment loss was made for the year ended 31 December 2013.

21. INVESTMENT PROPERTY

	The Group	
	2013	2012
	HK$'000	*HK$'000*
AT FAIR VALUE:		
At 1 January	**17,390**	–
Transfers of leasehold land and buildings to investment property	**–**	16,868
Fair value gain recognised for the year	**3,054**	504
Exchange realignment	**593**	18
At 31 December	**21,037**	17,390

The Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

On 2 May 2012, the Group transferred a building held as an owner-occupied property to investment property. The fair value of the Group's investment property has been determined by using income approach method with reference to the valuation performed by AVISTA.

There was a fair value gain of approximately HK$9,290,000 upon the transfer of leasehold land and buildings to investment property. The amount has been recognised in other comprehensive income during the year ended 31 December 2012.

At 31 December 2013, the property usage permit of the carrying values of approximately HK$nil (2012: HK$17,390,000) has not been granted by the relevant government authorities.

The above investment property is located in the PRC and held under medium-term lease.

Fair value measurement of properties

(i) Fair value hierarchy

The following table presents the fair value of the Group's properties measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13 Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

- Level 3 valuations: Fair value measured using significant unobservable inputs

21. INVESTMENT PROPERTY *(Continued)*

Fair value measurement of properties *(Continued)*

	Fair value at 31.12.2013	Fair value measurements as at 31.12.2013 categorised into		
		Level 1	Level 2	Level 3
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Group				
Recurring fair value measurement				
Investment properties:				
– Commercial – PRC	**21,037**	–	–	**21,037**

During the year ended 31 December 2013, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

All of the Group's investment properties were revalued as at 31 December 2013. The valuations were carried out by AVISTA, a professionally qualified valuer not connected with the Group who have recent experience in the location and category of property being valued. The Company's directors have discussion with the valuer on the valuation assumptions and valuation results when the valuation is performed at each reporting date.

(ii) Information about Level 3 fair value measurements

	Valuation techniques	Unobservable input	Range	Weighted average
Investment properties				
Commercial – PRC	Income approach (term and reversionary method)	Vacancy rate	0%	0%
		Term and reversionary yield	6.50% to 9.00%	8.68%

The fair value of investment properties located in the PRC is determined by using income approach (term and reversionary method) which largely used unobservable inputs (e.g. market rent, yield, etc) and taking into account the significant adjustment on term yield to account for the risk upon reversionary and the estimation in vacancy rate after expiry of current lease. The higher the vacancy rate and term and reversionary yield, the lower the fair value.

The movements during the year in the balance of these Level 3 fair value measurements are as follows:

	HK$'000
Investment properties – Commercial – PRC	
At 1 January 2013	**17,390**
Net gain from a fair value adjustment recognised in change in fair value of investment property in profit or loss	**3,054**
Exchange realignment	**593**
At 31 December 2013	**21,037**

All the gains recognised in profit or loss for the year arise from the properties held at the end of the reporting period. Exchange adjustment of investment property are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

22. OTHER INTANGIBLE ASSETS

		The Group	
	Goodwill	Exclusive rights of collection and utilisation of landfill gas	Total
	HK$'000	*HK$'000*	*HK$'000*
COST:			
At 1 January 2012 and 31 December 2012	262,225	–	262,225
Acquisition of a subsidiary *(note 39)*	8,643	41,411	50,054
At 31 December 2013	**270,868**	**41,411**	**312,279**
ACCUMULATED AMORTISATION AND IMPAIRMENT:			
At 1 January and 31 December 2012	251,933	–	251,933
Amortisation	–	583	583
At 31 December 2013	**251,933**	**583**	**252,516**
CARRYING VALUES:			
At 31 December 2013	**18,935**	**40,828**	**59,763**
At 31 December 2012	10,292	–	10,292

The Company and its subsidiary acquired the exclusive rights of collection and utilisation of landfill gas in connection with the acquisition of Nanjing Feng Shang in October 2013. The exclusive rights were initially recognized at fair value at the acquisition date. Pursuant to a cooperative agreement on 28 June 2010, Nanjing Feng Shang was granted the right by 南京市生活廢棄物處理管理處 to collect and utilise landfill gas in a landfill site in Nanjing until 30 June 2025.

22. OTHER INTANGIBLE ASSETS *(Continued)*

Impairment test on goodwill

For the purposes of impairment testing, goodwill have been allocated to seven individual cash generating unit ("CGUs"). The carrying amounts of goodwill (net of accumulated impairment losses) as at 31 December 2013 and 2012 allocated to these units are as follows:

	2013	2012
	HK$'000	*HK$'000*
Blue Mountain Hong Kong Group Limited	**–**	–
Danzhou Lian Shun Tong Water Pipe Company Limited	**–**	–
Onfar International Limited	**–**	–
Jining City Haiyuan Water Treatment Company Limited	**–**	–
Anhui Dang Shan Water Industry Company Limited	**–**	–
Foshan City Gaoming Huaxin Sewage Treatment Company Limited	**10,292**	10,292
Nanjing Feng Shang New Technology Limited Liability Company	**8,643**	–
	18,935	10,292

No impairment loss was made during the years ended 31 December 2013 and 2012.

The Group tests the CGU to which goodwill has been allocated annually for impairment, or more frequently when there is indication that the unit may be impaired. In assessing the need for impairment of goodwill, the Group estimates the recoverable amount of individual CGU to which goodwill has been allocated by reference to, amongst other things, the existing operations, and future prospects of the CGUs. Accordingly, the Group recognised impairment losses with an aggregate amount of HK$251,933,000 (2012: HK$251,933,000) in relation to goodwill arising on acquisition of Gaoming Huaxin, Blue Mountain, Onfar, Anhui Dang Shan, Danzhou Lian Shun Tong and Jining Haiyuan.

The basis of the recoverable amount of the CGUs and the major underlying assumptions are summarised below:

Water supply and sewage treatment ("Gaoming Huaxin")

The recoverable amounts of the CGUs under the water supply and sewage treatment operation have been determined on the basis of value-in-use calculation with reference to a valuation performed by AVISTA. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rate of 12% (2012: 12%). Cash flows beyond the 5 year period have been extrapolated using a steady 2% (2012: 2%) growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the long-term average growth rate for the relevant industry.

Collection and utilization of landfill gas ("Nanjing Feng Shang")

The recoverable amounts of the CGU under the collection and utilization of landfill gas operation have been determined on the basis of value-in-use calculation with reference to a valuation performed by AVISTA. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rate of 11%. Cash flows beyond the 5 year period have been extrapolated using a steady 3% growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry.

23. AVAILABLE-FOR-SALE INVESTMENTS

	The Group		The Company	
	2013	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Available-for-sale investments comprise:				
–Equity securities listed in Hong Kong	**95,781**	68,439	**95,781**	50,991

The fair values of the above listed securities are determined based on the quoted market bid prices available on the Stock Exchange.

Included in the available-for-sale investments of HK$29,898,000 (2012: HK$29,898,000) was an investment in equity securities listed in Hong Kong. The trading in these listed equity investments on the Stock Exchange was suspended during both years. After resumption of trading of this listed equity investment in February 2014, the Company disposed of all its investments in this security at a consideration of HK$46,385,000.

24. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2013	2012
	HK$'000	*HK$'000*
Unlisted shares at cost	**2**	2

24. INVESTMENTS IN SUBSIDIARIES *(Continued)*

The following list contains the particulars of the principal subsidiaries of the Group as at 31 December 2013. The class of shares held is ordinary, unless otherwise stated.

Name of company	Place of establishment/ incorporation and business	Particulars of issued and paid up share capital/ registered capital	Attributable equity interest held by the Company Directly	Indirectly	Principal activities	Legal form
Billion City Investments Limited	British Virgin Islands ("BVI")/Hong Kong	US$1	100%	–	Investment holding	Private limited liability company
Super Sino Investment Limited	Hong Kong	HK$1	–	100%	Investment holding	Private limited liability company
Anhui Dang Shan Water Industry Company Limited* ("Anhui Dang Shan")	PRC	RMB7,500,000	–	100%	Provision of water supply	Domestic enterprise
Onfar International Limited ("Onfar")	BVI/Hong Kong	US$100	–	100%	Investment holding	Private limited liability company
Yichun Water Industry Co., Limited* ("Yichun Water")	PRC	RMB45,500,000	–	51%	Provision of water supply	Domestic enterprise
Yichun Fangke Sewage Treatment Company Limited* ("Yichun Fangke") *(note i)*	PRC	RMB60,000,000	–	54.33%	Sewage treatment	Domestic enterprise
Yichun City Water Supply Engineering Limited*	PRC	RMB5,000,000	–	51%	Provision of water supply	Domestic enterprise
Yichun Kun Lun Information Technology Company Limited* ("Yichun Kun Lun")	PRC	RMB2,000,000	–	100%	Information services	Domestic enterprise
Hainan Danzhou Tap Water Company Limited* ("Danzhou Tap Water") Formerly known as Danzhou Qingyuan Water Industry Company Limited*	PRC	HK$30,000,000	–	100%	Provision of water supply	Wholly-owned foreign enterprise
Dangzhou Lian Shun Tong Water Pipe Company Limited* ("Dangzhou Lian Shun Tong")	PRC	RMB1,000,000	–	100%	Installation of water supply facilities	Domestic enterprise
Danzhou Qing Quang Water Testing Company Limited* ("Danzhou Qing Quang")	PRC	RMB100,000	–	100%	Water testing	Domestic enterprise

24. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place of establishment/ incorporation and business	Particulars of issued and paid up share capital/ registered capital	Attributable equity interest held by the Company Directly	Attributable equity interest held by the Company Indirectly	Principal activities	Legal form
Nourish Gain Investments Limited	BVI/Hong Kong	US$1	100%	–	Investment holding	Private limited liability company
China Ace Investment Limited	Hong Kong	HK$1	–	100%	Investment holding	Private limited liability company
Jining City Haiyuan Water Treatment Company Limited* ("Jining Haiyuan")	PRC	RMB40,000,000	–	70%	Sewage treatment	Domestic enterprise
China Water Industry (HK) Ltd	Hong Kong	HK$1	–	100%	Investment holding	Private limited liability company
Linyi Fenghuang Water Industry Co., Ltd* ("Linyi Fenghuang")	PRC	RMB30,000,000	–	60%	Provision of water supply	Domestic enterprise
Shenzhen Haisheng Environmental Sci-Tech Company Limited* ("Shenzhen Haisheng) *(note iii)*	PRC	HKD200,000	–	100%	Investment holding	Wholly-owned foreign enterprise
Shenzhen Shi Guang Trading Limited* ("Shenzhen Shi Guang")	PRC	RMB1,000,000	–	100%	Trading company	Domestic enterprise
Shi Guang Limited	Hong Kong	HK$10,000	–	100%	Trading company	Private limited liability company
Yingtan Water Supply Co., Ltd* ("Yingtan Water Supply")	PRC	RMB66,008,000	–	51%	Provision of water supply	Domestic enterprise
Jiangxi Shunda Construction Engineering Limited*	PRC	RMB20,500,000	–	51%	Installation of water supply facilities	Domestic enterprise
Yingtan Xinjiang Water Treatment Engineering Limited*	PRC	RMB500,000	–	51%	Installation of water supply facilities	Domestic enterprise
Nanjing Feng Shang New Technology Limited Liability Company* ("Nanjing Feng Shang")	PRC	RMB10,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Greenspring (Nanjing) Recycling Resources Investment Co., Ltd.	PRC	US$6,037,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Yingtan Xiang Rui Property Limited* ("Yingtan Xiang Rui") *(note ii)*	PRC	RMB20,000,000	–	51%	Property development	Domestic enterprise

24. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place of establishment/ incorporation and business	Particulars of issued and paid up share capital/ registered capital	Attributable equity interest held by the Company		Principal activities	Legal form
			Directly	Indirectly		
Happy Hour Limited	BVI/Hong Kong	US$1	100%	–	Investment holding	Private limited liability company
Mascot Industries Limited	Hong Kong	HK$2	–	100%	Investment holding	Private limited liability company
Smart Giant Group Limited	BVI/Hong Kong	US$1	100%	–	Investment holding	Private limited liability company
Blue Mountain Hong Kong Group Limited ("Blue Mountain")	Hong Kong	HK$1	–	100%	Investment holding	Private limited liability company
Bonus Raider Investments Limited	BVI/Hong Kong	US$1	100%	–	Investment holding	Private limited liability company
Bloom Profit Investment Limited	Hong Kong	HK$100	–	100%	Investment holding	Private limited liability company
Swift Surplus Holdings Limited	BVI/Hong Kong	US$100	100%	–	Investment holding	Private limited liability company
Mark Profit Group Holdings Limited	Hong Kong	HK$1	–	100%	Investment holding	Private limited liability company
Guangzhou Hyde Environmental Protection Technology Co., Ltd*	PRC	HKD12,000,000	–	100%	Investment holding	Wholly-owned foreign enterprise
Foshan City Gaoming Huaxin Sewage Treatment Company Limited* ("Gaoming Huaxin")	PRC	RMB10,000,000	–	70%	Sewage treatment	Domestic enterprise
South Top Investment Ltd.	Hong Kong	HK$1	100%	–	Investment holding	Private limited liability company
Neutral Crown Holdings Limited	BVI	US$100	100%	–	Investment holding	Private limited liability company
Victory Strategy Investment Limited	Hong Kong	HK$100	–	100%	Investment holding	Private limited liability company

* The English names are for identification purpose only.

24. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Notes:

(i) Effective on 1 March 2013, the Company acquired an additional 3.33% equity interest in Yichun Fangke at a cash consideration of RMB2.91 million (HK$3.60 million). As a result, the Company's equity interest in Yichun Fangke increased from 51% to 54.33%.

(ii) Yingtan Xiang Rui was incorporated in the PRC on 25 July 2013.

(iii) The issued and paid up capital of Shenzhen Haisheng was increased to HK$20,000,000 on 10 February 2014.

The above table lists the subsidiaries of the Company which, in the opinion of the directors of the Company, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

None of the subsidiaries has issued any debt securities subsisting at the end of 2013 and 2012 or at any time during the years ended 31 December 2013 and 2012.

The following table lists out the information relating to each of the Group's subsidiaries which has material non-controlling interest (NCI). The summarised financial information presented below represents the amounts before any inter-company elimination.

	Yingtan Water Supply		Yichun Water Industry		Yichun City Water Supply Engineering Limited	
	2013	2012	**2013**	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
NCI percentage	**49%**	49%	**49%**	49%	**49%**	49%
Current assets	**85,861**	93,831	**91,250**	96,742	**29,750**	6,210
Non-current assets	**239,185**	163,073	**205,631**	193,262	**–**	–
Current liabilities	**(83,157)**	(62,421)	**(40,044)**	(70,363)	**(10,332)**	(14)
Non-current liabilities	**(54,406)**	(31,710)	**(81,556)**	(71,691)	**–**	–
Net assets	**187,481**	162,773	**175,281**	147,950	**19,418**	6,196
Carrying amount of NCI	**91,866**	79,758	**85,888**	72,496	**9,515**	3,036
Revenue	**92,666**	98,713	**138,783**	126,345	**41,804**	1
Profit for the year	**19,175**	17,724	**23,484**	19,195	**12,821**	1
Total comprehensive income	**24,708**	20,552	**27,331**	19,986	**13,222**	1
Profit allocated to NCI	**9,396**	8,685	**11,507**	9,406	**6,282**	–
Cash flows from operating activities	**35,687**	13,845	**14,983**	26,115	**10,677**	1
Cash flows used in investing activities	**(7,992)**	(9,968)	**(7,378)**	(15,450)	**–**	–
Cash flows from (used in) financing activities	**28,930**	–	**(1,070)**	778	**16**	–

25. INTERESTS IN ASSOCIATES

	The Group 2013 HK$'000	2012 HK$'000
Share of net assets	**66,220**	66,371
Impairment	**(33,540)**	(33,540)
	32,680	32,831

All the Company's associates are unlisted corporate entities whose quoted market price is not available. All of these associates are accounted for using the equity method in the consolidated financial statements.

Name of company	Place of establishment/ incorporation and business	Class of shares held	Attributable equity interest held by the Company Directly	Indirectly	Principal activities	Legal form
Yu Jiang Hui Min Small-Sum Loan Company Limited* ("Yu Jiang Hui Min") 余江惠民小額貸款股份有限公司	PRC	Contributed capital	–	10%	Money lending business *(note i)*	Domestic enterprise
Jinan Hongquan Water Production Co., Limited* (Jinan Hongquan") 濟南泓泉制水有限公司	PRC	Contributed capital	–	35%	Provision of water supply *(note ii)*	Domestic enterprise

* The English names are for identification purpose only.

Notes:

(i) On 21 December 2011, the Group acquired 10% equity interest in Yu Jiang Hui Min at a consideration of approximately HK$12,206,000. During the years ended 31 December 2013 and 2012, the Group has the right to nominate one out of five (2012: one out of five) of the directors of Yu Jiang Hui Min. The directors of the Company consider that the Group does exercise significant influence over Yu Jiang Hui Min and it is therefore classified as an associate of the Group. Yu Jiang Hui Min enables the Group to have exposure in the money lending business through local expertise.

(ii) Jinan Hongquan enables the Group to have exposure in provision of water supply in Jinan, the PRC.

25. INTERESTS IN ASSOCIATES *(Continued)*

The summarised financial information in respect of the Group's associates is set out below:

	Yu Jiang Hui Min		Jinan Hongquan	
	2013	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Gross amounts of the associates'				
Current assets	**188,958**	147,732	**188,434**	120,643
Non-current assets	**762**	642	**404,623**	417,042
Current liabilities	**(48,485)**	(23,145)	**(126,756)**	(296,085)
Non-current liabilities	**–**	–	**(317,455)**	(87,748)
Equity	**141,235**	125,229	**148,846**	153,852
Revenue	**23,411**	22,331	**317,460**	304,335
Profit/(loss) for the year	**11,895**	1,934	**(9,877)**	(17,270)
Other comprehensive income	**4,111**	1,235	**4,871**	1,703
Total comprehensive income	**16,006**	3,169	**(5,006)**	(15,567)
Reconciled to the Group's interests in the associates:				
Net assets of the associates	**141,235**	125,229	**148,846**	153,852
Proportion of the Group's ownership interests in the associates	**10%**	10%	**35%**	35%
Impairment	**–**	–	**(33,540)**	(33,540)
Carrying amount of the Group's interests in the associates	**14,124**	12,523	**18,556**	20,308

26. INVENTORIES

	The Group	
	2013	2012
	HK$'000	*HK$'000*
		(Restated)
Raw materials	**1,527**	2,151
Finished goods	**23,054**	65,803
	24,581	67,954

The analysis of the amount of inventories recognised as an expense is as follows:

	2013	2012
	HK$'000	*HK$'000*
Carrying amount of inventories sold	**81,728**	57,617

27. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2013	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000* (Restated)
Trade receivables	**40,790**	28,445	**–**	–
Less: Allowance for doubtful debts	**(7,604)**	(6,733)	**–**	–
	33,186	21,712	**–**	–
Other receivables *(note a)*	**38,273**	13,657	**2,005**	2,005
Less: Allowance for doubtful debts	**(9,090)**	(9,453)	**(1,712)**	(1,712)
	29,183	4,204	**293**	293
Loans receivables	**81,844**	95,549	**81,844**	95,549
Less: Allowance for doubtful debts	**(54,844)**	(67,549)	**(54,844)**	(67,549)
	27,000	28,000	**27,000**	28,000
Deposits and prepayments *(note b)*	**18,995**	35,197	**–**	–
	108,364	89,113	**27,293**	28,293

Note a: Included in other receivables was an amount due from a non-controlling shareholder of a subsidiary of approximately HK$17,816,000 (2012: nil) which was unsecured, interest-free and repayable by 30 April 2014.

Note b: Included in deposits and prepayments of approximately HK$12,719,000 (2012: HK$29,599,000) was tender deposits paid to one independent third party (2012: two independent third parties) for bidding the construction project. The amount is unsecured, interest-free and repayable within one year.

The Group allows an average credit period of 30 days to 180 days to its customers.

An aged 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:

	The Group	
	2013	2012
	HK$'000	*HK$'000*
Within 90 days	**22,512**	15,738
91 to 180 days	**6,483**	4,192
181 to 365 days	**3,890**	1,189
Over 1 year	**301**	593
	33,186	21,712

Trade receivables are due within 180 days from the date of billing. Further details on the Group's credit policy are set out in note 7.

27. TRADE AND OTHER RECEIVABLES *(Continued)*

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

	The Group	
	2013	2012
	HK$'000	*HK$'000*
Neither past due nor impaired	**28,995**	19,930
Overdue by:		
Within 90 days	**3,133**	887
91 to 180 days	**757**	302
181 to 365 days	**–**	593
Over 1 year	**301**	–
	33,186	21,712

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 (note 3(o)).

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

	The Group	
	2013	2012
	HK$'000	*HK$'000*
At 1 January	**6,733**	8,531
Impairment loss recognised	**2,303**	540
Reversal of impairment loss	**(1,654)**	(2,420)
Exchange realignment	**222**	82
At 31 December	**7,604**	6,733

Included in the impairment loss are individually impaired trade receivables with an aggregate balance of HK$7,604,000 (2012: HK$6,733,000) which are long outstanding.

27. TRADE AND OTHER RECEIVABLES *(Continued)*

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

	The Group		The Company	
	2013	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
At 1 January	**9,453**	5,595	**1,712**	–
Impairment loss recognised	**287**	3,821	**–**	1,712
Reversal of impairment loss	**(339)**	–	**–**	–
Uncollectible amounts written off	**(376)**	–	**–**	–
Exchange realignment	**65**	37	**–**	–
At 31 December	**9,090**	9,453	**1,712**	1,712

Included in the impairment loss are individually impaired other receivables with an aggregate balance of HK$9,090,000 (2012: HK$9,453,000) for the Group and HK$1,712,000 (2012: HK$1,712,000) for the Company which are long outstanding. The Group does not hold any collateral over these balances.

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

	The Group		The Company	
	2013	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
At 1 January	**67,549**	81,939	**67,549**	81,939
Impairment loss recognised	**28,000**	–	**28,000**	–
Reversal of impairment loss	**(19,078)**	(14,390)	**(19,078)**	(14,390)
Uncollectible amounts written off	**(21,627)**	–	**(21,627)**	–
At 31 December	**54,844**	67,549	**54,844**	67,549

Included in the impairment loss are individually impaired loans receivables with an aggregate balance of HK$54,844,000 (2012: HK$67,549,000) for the Group and HK$54,844,000 (2012: 67,549,000) for the Company which are long outstanding. The Group does not hold any collateral over these balances.

Loans to Top Vision

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

27. TRADE AND OTHER RECEIVABLES *(Continued)*

Loans to Top Vision *(Continued)*

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.

As at December 31, 2013, a further impairment loss of approximately HK$28 million regarding the loan receivables from Top Vision has been provided. The Board determined to fully impair the remaining carrying amount of HK$28 million as it seems doubtful that the outstanding balance could be recovered from the actions taken against Top Vision.

Other loans receivables

Also included in loans receivables brought forward from 1 January 2012 were amounts advanced to five independent third parties amounting to HK$10,000,000 ("Borrower A"), HK$2,513,000 ("Borrower B"), HK$42,446,000 ("Borrower C"), HK$9,575,000 ("Borrower D"), HK$5,720,000 ("Borrower E"), HK$24,412,000 ("Borrower F) and HK$14,647,000 ("Borrower G")), of which an allowance of HK$10,000,000, HK$600,000, HK$40,746,000, HK$9,275,000 and HK$5,720,000, respectively, was made on the respective loans. During the year ended 31 December 2012, a total of HK$14,390,000 was collected on these loans, and a reversal of impairment loss of the same amount was recognised.

As at 31 December 2012, outstanding balances from Borrower A, Borrower B, Borrower C and Borrower E were HK$10,000,000, HK$526,000, HK$40,705,000 and HK$720,000 respectively. These balances were fully impaired at 31 December 2012. The outstanding balance from Borrower D, Borrower F and Borrower G were fully settled during the year ended 31 December 2012.

In September 2013, the Company agreed to take one-half haircut on the debt plus any accrued interests owed by Borrower C. The Company recovered a total of HK$27 million (representing loans receivable of HK$19,078,000 and interest income of HK$7,922,000) in February 2014 pursuant to this agreement. As such, the Company recorded an interest income of HK$7,922,000, reversed impairment loss of HK$19,078,000 and wrote off the remaining balance of HK$21,627,000 in 2013.

Outstanding balances from Borrower A, Borrower B, Borrower C, and Borrower E as at 31 December 2013, after write off and including accrued interests, totalled HK$38,246,000, of which HK$11,246,000 were impaired at 31 December 2013.

28. CASH HELD BY FINANCIAL INSTITUTIONS AND BANK BALANCES AND CASH

Cash held by financial institutions by the Group and the Company represents amounts deposited in financial institutions in Hong Kong carry interest rate ranging from 0% to 0.001% (2012: 0% to 0.001%) per annum.

Bank balances and cash comprise cash held by the Group and the Company and short-term bank deposits with an original maturity of three months or less. The deposits carry interest at prevailing market rates.

29. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2013	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade payables	**22,302**	13,701	**–**	–
Other tax payables	**3,796**	3,219	**–**	–
Receipt in advance *(note 30)*	**60,434**	67,646	**–**	–
Construction payables	**8,882**	10,001	**–**	–
Interest payables *(note 32)*	**16,013**	84,224	**–**	–
Consideration payable *(note 39)*	**5,107**	–	**–**	–
Other payables	**40,925**	28,200	**3,252**	500
	157,459	206,991	**3,252**	500

The following is an aged analysis of trade payables at the end of reporting period, based on invoice date:

	The Group	
	2013	2012
	HK$'000	*HK$'000*
Within 30 days	**11,922**	1,618
31 to 90 days	**2,436**	3,531
91 to 180 days	**758**	196
181 to 365 days	**2,213**	3,469
Over 1 year	**4,973**	4,887
	22,302	13,701

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 timeframe agreed with the respective suppliers.

30. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORKS

	The Group	
	2013	2012
	HK$'000	*HK$'000*
		(Restated)
Contracts in progress at the end of reporting period:		
Contract costs incurred plus recognised profits	**40,625**	32,155
Less: progress billings	**(43,528)**	(50,313)
	(2,903)	(18,158)
Analysed for reporting purposes		
Amounts due from contract customers	**8,790**	2,755
Amounts due to contract customers	**(11,693)**	(20,913)
	(2,903)	(18,158)

As at 31 December 2013 and 2012, there were no retentions held by customers for contract work. Advance received from customers for contract work amounted to HK$60,434,000 (2012: HK$67,646,000) included in other payables.

31. BANK BORROWINGS

	The Group	
	2013	2012
	HK$'000	*HK$'000*
Secured loans		
Carrying amount repayable:		
On demand overdue balances *(notes ii and iii)*	**8,535**	37,319
Within one year	**33,581**	8,634
More than one year but not more than two years	**8,903**	8,633
More than two years but not more than five years	**17,807**	25,899
	68,826	80,485
Less: Amount due within one year shown under current liabilities	**(42,116)**	(45,953)
Amount due from one year shown under non-current liabilities	**26,710**	34,532

The exposure of the Group's loans is as follows:

	The Group	
	2013	2012
	HK$'000	*HK$'000*
Fixed-rate loans	**44,148**	29,918
Variable-rate loans	**24,678**	50,567
	68,826	80,485

The amounts due are based on the scheduled repayment dates as stipulated in the respective loan agreements.

31. BANK BORROWINGS *(Continued)*

At 31 December 2013, the Group has the following undrawn bank borrowing facilities:

	2013 HK$'000	2012 HK$'000
Variable-rate		
– expiring beyond one year	**15,705**	–
	15,705	–

All of the secured bank loans, including amounts repayable on demand, are carried at amortised cost.

Certain of the Group's prepaid lease payments, property, plant and equipment and concession intangible assets with a carrying value of approximately HK$nil (2012: HK$10,422,000), HK$1,034,000 (2012: HK$2,147,000) and HK$nil (2012: HK$18,442,000), respectively, were pledged to secure the respective bank borrowings as at 31 December 2013.

Notes:

(i) As at 31 December 2013, included in bank borrowings of approximately RMB12,000,000 (equivalent to HK$15,263,000) (2012: RMB15,000,000 (equivalent to HK$18,500,000)) which carries variable interest rate ranging from 6.6% to 7.8% (2012: 6.6% to 7.8%) per annum is secured by a contractual right to receive the revenue generated by Yichun Fangke, a non-wholly owned subsidiary of the Company.

(ii) As at 31 December 2012, in respect of bank borrowings with carrying amounts of approximately RMB26,000,000 (equivalent to HK$32,067,000) borrowed from Agricultural Bank of China, Danzhou Branch ("ABC Bank"), were overdue and were classified as current liabilities (the "Overdue Loans") with accrued interest payables of approximately RMB48,114,000 (equivalent to HK$59,339,000).

31. BANK BORROWINGS *(Continued)*

(ii) *(Continued)*

The Overdue Loans were arisen from the acquisition of a business on 31 March 2008. The Overdue Loans were secured floating-rate borrowings which carried interest at the People's Bank of China Base Lending Rate. Pursuant to the respective loan agreements, the Group was subject to additional interests for the overdue amounts which are calculated based on the overdue interest rate published by the People's Bank of China. On 26 June 2008, ABC Bank had filed a claim against the Group for the repayment of the Overdue Loans together with the interests thereon. On 13 November 2009, a verdict was issued by the Intermediate People's Court of Hainan (the "Court"), and the Group is ordered to fully repay the said bank borrowings together with the interests thereon. On 17 December 2009, ABC Bank made an appeal to the Higher People's Court of Hainan Province (the "Higher Court") seeking the fulfillment of the guarantee responsibility of Danzhou Urban Development Corporation. On 15 December 2010, the Higher Court issued the verdict, pursuant to which all the shares of Danzhou Tap Water (formerly known as Danzhou Qingyuan Water Industry Company Limited) owned by Super Sino (the "Shares") had been frozen from 15 December 2010 to 14 December 2012. On 6 December 2012, the Court issued another verdict, pursuant to which the frozen period is further extended to 14 December 2013. The Company cannot transfer or dispose of the Shares during the period. According to the legal advice, the directors of the Company are of the opinion that the verdict will not impair the control of the Group over Danzhou Tap Water due to the following reasons:

(1) Super Sino is still the legal owner of Danzhou Tap Water from 15 December 2010 to 14 December 2013.

(2) As Danzhou Tap Water is engaged in the business of provision of water in the PRC, it requires a special license through the approval of the various local government authorities. The procedures to change the shareholding are complicated and time consuming. As such, the change of shareholding will not materialise during the period in concern.

On 28 December 2012, the Group entered into a settlement agreement ("Settlement Agreement 1") with ABC Bank, pursuant to which, ABC Bank conditionally agreed to waive interest payment of approximately RMB60.62 million (HK$74.76 million) and release the pledged assets if the Group could fulfill the following conditions:

(1) the Group has to settle the principal of RMB15,000,000 (equivalent to HK$18.50 million) and the litigation costs of RMB491,000 (equivalent to HK$0.61 million) on or before 31 December 2012; and

(2) the Group has to settle the principal of RMB11,000,000 (equivalent to HK$13.57 million) and interest payables of RMB4,890,000 (equivalent to HK$6.03 million) on or before 31 December 2013.

31. BANK BORROWINGS *(Continued)*

(ii) *(Continued)*

On 28 January 2013, the Group further entered into a supplemental settlement agreement ("Settlement Agreement 2") with ABC Bank, pursuant to which, it superseded the conditions stated in the Settlement Agreement 1. According to Settlement Agreement 2, ABC Bank agreed to waive a substantial portion of the interest payment and release the pledged assets once the Group settled the aggregate amount of the principal and the remaining portion of the interest payment of approximately RMB31.38 million (HK$38.70 million) ("Debt") on or before 30 June 2013. On 18 April 2013, ABC Bank received moneys from the Company to settle all Debt and agreed to waive the interest payment as mentioned before.

On 6 May 2013, ABC Bank submitted the application to the Court to revoke the freezing of the Shares as the Debt had been settled. On 3 June 2013, the Court had accepted the application. Following the effective of the waiver of interest payment and the release of pledged assets, the Company recorded a total amount of HK$59.75 million as an income in the year ended 31 December 2013.

(iii) As at 31 December 2013, included in bank borrowings of approximately RMB22,710,000 (equivalent to HK$28,885,000) (2012: RMB24,260,000 (equivalent to HK$29,918,000)) which is secured by a contractual right to receive the revenue generated by Gaoming Huaxin, a non-wholly owned subsidiary of the Company, and carries fixed interest rate of 5.94% (2012: 5.94%) per annum. As at 31 December 2013, there was a past due amount of approximately HK$8,535,000 (2012: HK$5,252,000).

(iv) As at 31 December 2013, included in bank borrowings of approximately RMB3,403,000 (equivalent to HK$4,328,000) (2012: nil) which is secured by a contractual right to receive the revenue generated by Yingtan Water Supply, a non-wholly owned subsidiary of the Company, and carries floating interest rate at 110% of RMB benchmark deposit interest rate per annum. The Company also has bank borrowings of approximately RMB7,000,000 (equivalents to HK$8,903,000) (2012: nil) which is secured by property, plant and equipment, and carries floating interest rate of RMB benchmark deposit interest rate per annum.

(v) As December 2013, included in bank borrowings of approximately RMB4,000,000 (equivalent to HK$5,088,000) (2012: nil) which is secured by personal guarantee granted by Mr. Li Jian Ping, a director of Nanjing Feng Shang, and carries floating interest rate at 120% of RMB benchmark deposit interest rate per annum. The Company also has bank borrowings of approximately RMB5,000,000 (equivalents to HK$6,360,000) (2012: nil) which is also secured by personal guarantee granted by Mr. Li Jian Ping, and carries fixed interest rate of 6.9% per annum.

32. OTHER LOANS

	The Group	
	2013	2012
	HK$'000	*HK$'000*
Other loans comprise of:		
Government loans *(note i)*	**105,367**	81,362
Loans from non-bank institutions *(note ii)*	**10,430**	3,700
Overdue loans *(notes ii and iii)*	**–**	–
Loans from employees *(note iv)*	**2,544**	3,983
	118,341	89,045
Analysed as:		
Secured	**6,360**	6,167
Unsecured	**111,981**	82,878
	118,341	89,045

	The Group	
	2013	2012
	HK$'000	*HK$'000*
Carrying amount repayable:		
On demand overdue loans	**2,544**	–
On demand or within one year	**63,178**	54,473
More than one year but not more than two years	**925**	5,120
More than two years but not more than five years	**3,700**	4,036
More than five years	**47,994**	25,416
	118,341	89,045
Less: Amount due within one year shown under current liabilities	**(65,722)**	(54,473)
Amount due from one year shown under non-current liabilities	**52,619**	34,572

32. OTHER LOANS *(Continued)*

Notes:

(i) As at 31 December 2013, government loans of approximately HK$20,350,000 (2012: HK$19,733,000), HK$37,220,000 (2012: HK$37,930,000) and HK$47,797,000 (2012: HK$23,699,000) are fixed-rate borrowings, floating-rate borrowings and interest-free borrowings, respectively. The fixed-rate borrowings carry interest ranging from 2.33% to 5% (2012: 2.33% to 5%) per annum and the floating-rate borrowings carry interest at fixed deposit rate as stipulated by the People's Bank of China plus 0.3% per annum (2012: 0.3% per annum). As at 31 December 2013, the government loans of HK$58,900,000 (2012: HK$58,951,000) are repayable on demand or within one year to twelve years (2012: one year to thirteen years), and the remaining balance are repayable within thirteen years after completion of the relevant assets.

According to the 瓊財建2011670號 dated 5 May 2011 and 儋財建2012963號 dated 21 December 2012 issued by Hainan Province Finance Bureau and Danzhou Province Finance Bureau (collectively refer to as the "Finance Bureaus") respectively, the Finance Bureaus have agreed to waive the loan principal of approximately RMB29,236,000 (equivalent to HK$36,057,000) and accrued interest of approximately RMB1,396,000 (equivalent to HK$1,716,000) unconditionally during the year ended 31 December 2012 for building the water supply facilities. Waiver of other loan and interest payables of approximately RMB30,632,000 (equivalent to approximately HK$37,773,000) was recognised in other operating income (government grants) for the year ended 31 December 2012.

(ii) At 31 December 2013, loans from non-bank institutions, and overdue loan with an aggregate amount of approximately HK$10,430,000 (2012: HK$3,700,000) are fixed-rate borrowings carrying interest ranging from 5% to 11.1% (2012: 5% to 12.3%) per annum. A loan from non-bank institutions of HK$6,360,000 (2012: HK$6,167,000) is secured by an unrelated individual.

(iii) As at 1 January 2012, the Company owed overdue loans with carrying amount of approximately RMB4,000,000 (equivalent to HK$4,882,000) and interest payable (included in other payables) of approximately RMB12,421,000 (equivalent to HK$15,161,000) to a new lender, which acquired the overdue loan through an auction in the PRC during 2010. On 29 June 2012, the Group entered into a settlement agreement with the new lender, pursuant to which the Group has to settle the principal of RMB4,000,000 (equivalent to HK$4,882,000) during the year ended 31 December 2012. According to the aforesaid settlement agreement, the new owner agreed to waive the part of the accrued interest of RMB3,421,000 (equivalent to HK$4,219,000) and the relevant pledged assets has been released.

Details of repayment schedule agreed are set out below:

(1) Waiver of the accrued interest payable of approximately RMB3,421,000 in aggregate and release of pledged assets; and

(2) Revised the repayment schedule as follow:

(i) RMB1,500,000 (on or before 8 August 2012)
(ii) RMB500,000 (on or before 30 September 2012)
(iii) RMB2,000,000 (on or before 30 December 2012)
(iv) RMB4,000,000 (on or before 30 June 2013)
(v) RMB5,000,000 (on or before 30 December 2013)

The Group followed the repayment schedule and has repaid RMB4,000,000 during the year ended 31 December 2012. According to the aforesaid settlement agreement, the new owner has the right to charge addition 0.3% interest based on the newly agreed interest payables of RMB9,000,000, if any default payment.

The Group followed the repayment schedule and has repaid RMB9,000,000 during the year ended 31 December 2013.

(iv) At 31 December 2013, loans from employees of approximately RMB2,000,000 (equivalent to HK$2,544,000) (2012: RMB3,230,000 (equivalent to HK$3,983,000)) are fixed-rate borrowings carrying interest at 20% (2012: 12% to 20%) per annum and are repayable on demand.

33. AMOUNTS DUE TO NON-CONTROLLING SHAREHOLDERS OF SUBSIDIARIES

The amounts were unsecured, interest-free and repayable on demand.

34. LOAN FROM AN ASSOCIATE

As at 31 December 2013, the amount was unsecured, carried interest at 6.15% (2012: 5.83%) per annum and was repayable within a year.

35. CONVERTIBLE BONDS

The Group and the Company

(1) Issue of convertible bonds on 26 August 2011

On 26 August 2011, the Company issued convertible bonds with principal amount of HK$40,000,000, which can be converted up to 80,000,000 ordinary shares at HK$0.10 each. The bonds entitled its holders to convert the bonds into ordinary shares of the Company at any time from the date of the issue up to and including the date which 7 days prior to the maturity date of the bonds. The bonds cannot be redeemed by its holders or the Company. None of the bonds was converted into ordinary shares of the Company during the year ended 31 December 2011. If the bonds have not been converted at any time before the due date, it would be redeemed by the Company on 25 August 2012. On 30 September 2011, the conversion price of the convertible bonds was adjusted from HK$0.10 per share to HK$1 per share as a result of the share consolidation. On 6 March 2012, the conversion price was further adjusted to HK$0.50 per share as a result of the Sub-division (note 36(b)(i)).

On 29 June 2012, all of the convertible bonds with principal amount of HK$40,000,000 were converted to 80,000,000 ordinary shares of the Company at a conversion price of HK$0.50 each.

(2) Issue of convertible bonds on 30 September 2011

On 30 September 2011, the Company issued convertible bonds with principal amount of HK$200,000,000 in order to settle a loan from an independent third party, which can be converted up to 200,000,000 ordinary shares at HK$1 each. The bonds entitled its holders to convert them into ordinary shares of the Company at any time from the date of the issue up to and including the date of 7 days prior to the maturity date of the bonds. The bonds cannot be early redeemed by its holders or the Company. None of the bonds was converted into ordinary shares of the Company during the year ended 31 December 2011. If the bonds have not been converted at any time before the due date, it would be repaid by the Company on 29 September 2014. On 6 March 2012, the conversion price was further adjusted to HK$0.50 per share as a result of the Sub-division (note 36(b)(i)).

On 16 October 2012, the bond holders converted the bonds with a principal amount of HK$60,000,000 into 120,000,000 ordinary shares at conversion price of HK$0.50 each. On 30 October 2012, the holder sold HK$100,000,000 of the bonds to several independent third parties which were then fully converted into 200,000,000 ordinary shares at conversion price of HK$0.50. On 1 November 2012, the bond holder further converted the remaining HK$40,000,000 of the bonds into 80,000,000 ordinary shares at a conversion price of HK$0.50.

35. CONVERTIBLE BONDS *(Continued)*

The Group and the Company *(Continued)*

(3) Issue of convertible bonds on 30 October 2013 ("30 October 2013 CB")

On 16 October 2013, the Company and the Subscriber (Prosper Talent Limited) entered into the Subscription Agreement in respect of the issue of and subscription for the Convertible Bonds to be issued in two tranches in an aggregate principal amount of HK$200 million in cash, comprising of the Series A Bond and the Series B Bond.

The estimated net proceeds from the Subscription (after deducting all related expenses) of approximately HK$197 million is intended to be used for investment in the establishment and operation of water supply companies, sewage treatment companies and solid waste treatment companies.

Subscription of the Series A Bonds has been fulfilled and Series A Closing took place on 30 October 2013 with the issue of Series A Bonds in the principal amount of HK$100 million convertible into ordinary shares of the Company at the initial conversion Price of HK$1.65 per share. The bond has a maturity date of one year (ie maturity date falling on 30 October 2014), bears interest at 7.5% per annum payable semi-annually coupon and, on maturity, the bond will be redeemed at an aggregate price of 100% of the outstanding principal amount plus an interest of 12% per annum, less the interest amount already paid on the bond. The conversion price of HK$1.65 is subject to certain anti-dilution adjustments and certain events such as changes in the share capital of the Company including consolidation and sub-division of shares, capitalisation of profits or reserves, capital distribution, rights issue, or subsequent issue of securities in the Company at substantial discount (ie less than 90%) to market value.

Subscription of the Series B Bonds was completed on 14 January 2014 (note 46(i)).

The Series A Bonds contain liability component and conversion option

The fair value of the liability component on initial recognition was calculated based on the present value of the principal amount. The liability component of the convertible bonds is carried at amortised cost using the effective interest method. The effective interest rate of the liability component was 24.67% per annum.

The embedded conversion option represents the bondholders' option to convert the convertible bonds into ordinary shares of the Company. However, since the conversion will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments, the conversion option is treated as a derivative and is measured at fair value at the end of each reporting period with changes in fair value recognised in profit or loss.

35. CONVERTIBLE BONDS *(Continued)*

The Group and the Company *(Continued)*

(3) Issue of convertible bonds on 30 October 2013 ("30 October 2013 CB") (Continued)

Subscription of the Series B Bonds was completed on 14 January 2014 (note 46(i)) *(Continued)*

The Series A Bonds contain liability component and conversion option (Continued)

The movement of the liability and derivatives component of the convertible bonds issued on 30 October 2013 is set out below:

	Liability *HK$'000*	Derivative component embedded in convertible bonds *HK$'000*	Total *HK$'000*
Issuance	**89,915**	**10,085**	**100,000**
Imputed interest recognised	**3,481**	**–**	**3,481**
Coupon interest paid in advance	**(3,750)**	**–**	**(3,750)**
Loss on change in fair value of derivatives embedded in convertible bonds	**–**	**7,621**	**7,621**
At 31 December 2013	**89,646**	**17,706**	**107,352**

Change in fair value during the period amounting to HK$7,621,000 relates to derivative component embedded in convertible bonds issued by the Group and remained outstanding at the end of the reporting period.

The fair value of the conversion option is calculated using the Binomial Model. The inputs into the model were as follows:

	At 31 December 2013	At date of issuance
Share price	**1.79**	**1.44**
Conversion price	**1.65**	**1.65**
Expected volatility *(a)*	**37.26%**	**40.93%**
Expected life – year *(b)*	**0.8**	**1.0**
Risk free rate *(c)*	**0.17%**	**0.20%**
Expected dividend yield *(d)*	**–**	**–**

Notes:

(a) Expected volatility was determined by calculating the historical volatility of the Company's share price.

(b) Expected life was the expected remaining life of the option.

(c) The risk free rate is determined by reference to the yield of HK Exchange Fund Notes/Bills with a maturity life equal to the time to maturity of the convertible bond as of the valuation date.

(d) The expected dividend yield was based on the historical dividend payment record of the Company.

36. CAPITAL AND RESERVES

(a) The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

(Amounts in HK$'000)

The Company	Share capital	Share premium	Convertible bonds equity reserve	Investment revaluation reserve	Accumulated losses	Total
At 1 January 2012	410,332	609,578	74,802	–	(388,321)	706,391
Changes in equity for 2012:						
Loss for the year	–	–	–	–	(491,603)	(491,603)
Other comprehensive income for the year – fair value recognised on available-for-sale investments	–	–	–	1,110	–	1,110
Placing of new shares *(note(b) ii)*	110,000	1,380	–	–	–	111,380
Transaction costs attributable to issue of share *(note(b) ii)*	–	(3,167)	–	–	–	(3,167)
Shares issued under conversion of convertible bonds *(note 34)*	240,000	67,728	(74,802)	–	–	232,926
Capital reduction *(note (b) i)*	(205,166)	205,166				–
Transfer *(note)*	–	(396,683)	–	–	396,683	–
At 31 December 2012 (restated)	555,166	484,002	–	1,110	(483,241)	557,037
At 1 January 2013 (As previously reported)	**555,166**	**484,002**	**–**	**1,110**	**(481,529)**	**558,749**
Effect of prior year adjustment	**–**	**–**	**–**	**–**	**(1,712)**	**(1,712)**
At 1 January 2013 (restated)	**555,166**	**484,002**	**–**	**1,110**	**(483,241)**	**557,037**
Changes in equity for 2013:						
Loss for the year	**–**	**–**	**–**	**–**	**(17,064)**	**(17,064)**
Other comprehensive income for the year:						
Investments disposed of during the year	**–**	**–**	**–**	**(1,110)**	**–**	**(1,110)**
Fair value gain recognised on available-for-sale investments	**–**	**–**	**–**	**9,147**	**–**	**9,147**
At 31 December 2013	**555,166**	**484,002**	**–**	**9,147**	**(500,305)**	**548,010**

Note: On 15 June 2012, the shareholders of the Company approved to reduce the share premium account of the Company by an amount of approximately HK$396,683,000 and the aforesaid amount has been credited to accumulated losses.

As at 31 December 2013 and 2012, the Company has no reserves available for distribution to shareholders.

36. CAPITAL AND RESERVES *(Continued)*

(b) Share capital

	2013 No. of shares '000	2013 Amount HK$'000	2012 No. of shares '000	2012 Amount HK$'000
Authorised:				
Ordinary shares of HK$0.50 each				
At 1 January	**4,000,000**	**2,000,000**	2,000,000	2,000,000
Capital reorganisation *(note i)*	**–**	**–**	2,000,000	–
At 31 December	**4,000,000**	**2,000,000**	4,000,000	2,000,000
Convertible preference shares of HK$0.10 each				
At 1 January and 31 December	**2,000,000**	**200,000**	2,000,000	200,000
Issued and fully paid:				
Ordinary shares of HK$0.50 each				
At 1 January	**1,110,332**	**555,166**	410,332	410,332
Capital reorganisation *(note i)*	**–**	**–**	–	(205,166)
Placing of new shares *(note ii)*	**–**	**–**	220,000	110,000
Conversion of convertible bonds *(note 34)*	**–**	**–**	480,000	240,000
At 31 December	**1,110,332**	**555,166**	1,110,332	555,166

(i) Pursuant to a special resolution passed by the Company's shareholders at an extraordinary general meeting held on 26 September 2011 and the approval granted by the Grand Court of the Cayman Islands on 6 March 2012, the par value of every issued share of the Company was reduced from HK$1.00 to HK$0.50 by the reduction of HK$0.50 on each issued share of par value of HK$1.00 each (the "Capital Reduction"), with each such reduced share being treated as one fully paid up new share of par value HK$0.50 each (the "New Shares").

Pursuant to an ordinary resolution passed by the Company's shareholders at an extraordinary general meeting held on 26 September 2011, immediately upon the Capital Reduction becoming effective, each authorised but un-issued share with a par value of HK$1.00 each shall be sub-divided into 2 New Shares with a par value of HK$0.50 each (the "Sub-division"). Immediately upon the Sub-division becoming effective, the number of authorised share capital of the Company was increased to 4,000,000,000 ordinary shares of HK$0.50 each.

36. CAPITAL AND RESERVES *(Continued)*

(b) Share capital *(Continued)*

(ii) On 27 July 2012, pursuant to a placing and subscription agreement entered into with independent third parties, the Company placed out 82,000,000 new ordinary shares of HK$0.50 each. The aforesaid placing of shares was completed on 14 August 2012. A sum of net amount approximately HK$39,925,000 after deducting related expenses of approximately HK$1,075,000 was raised and used as working capital of the Group.

On 14 December 2012, pursuant to a placing and subscription agreement entered into with a placing agent, 138,000,000 ordinary shares will be placed out to independent third parties of HK$0.51 each. The aforesaid placing of shares was completed on 27 December 2012. A sum of net amount approximately HK$68,288,000, after deducting related expenses of approximately HK$2,092,000, was raised. Approximate 80% and 20% will be used for future business development and general working capital of the Group, respectively.

(c) Nature and purpose of reserves

(i) Share premium

The application of the share premium account is governed under the Companies Law of the Cayman Islands.

(ii) Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 3(bb).

(iii) Reserve fund

Reserve fund arises from (i) pursuant to applicable PRC regulations, certain PRC subsidiaries in the Group are required to appropriate 10% of their profit after tax (after offsetting prior year losses) to the statutory reserve until such reserve reaches 50% of their registered capital. Transfers to this reserve must be made before distribution of dividends to shareholders. Upon approval by relevant authorities, the statutory reserve can be utilised to offset the accumulated losses or to increase the registered capital of the subsidiary, provided that the balance after such issue is not less than 25% of its registered capital; and (ii) premium paid for capital injection in relation to the additional of equity interest of a subsidiary.

(iv) Investment revaluation reserve

The investment revaluation reserve comprises the cumulative net change in the fair value of available-for-sale investments held at the end of the reporting period and is dealt with in accordance with the accounting policies in notes 3(n) and 3(o)(i).

37. GOVERNMENT GRANTS

	The Group	
	2013	2012
	HK$'000	*HK$'000*
At 1 January	**90,319**	71,345
Addition	**6,012**	20,392
Recognised as profit for the year	**(3,223)**	(2,220)
Exchange realignment	**2,872**	802
At 31 December, classified as non-current liabilities	**95,980**	90,319

Certain subsidiaries of the Group received government grants subsidising construction of water supply facilities. There are no unfulfilled conditions and other contingencies attaching to the government grants. The government grants were accounted for as non-current liabilities and amortised over the useful lives of the relevant water pipeline network and water plant assets. During the year, certain projects related to the construction of water pipeline network has been completed and being used in the year. Deferred government grants of approximately HK$3,223,000 (2012: HK$2,220,000) was amortised and recognised in the consolidated statement of profit or loss.

38. DEFERRED TAX (ASSETS)/LIABILITIES

The following are the major deferred tax (assets)/liabilities recognised and movements thereon during the current and prior years:

	Withholding tax on undistributed profits	Service concession arrangements	Exclusive rights	Revaluation on investment property	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2012	4,219	8,256	–	–	12,475
Charged to profit or loss for the year	1,982	1,851	–	126	3,959
Charged to other comprehensive income for the year	–	–	–	2,323	2,323
At 31 December 2012	6,201	10,107	–	2,449	18,757
At 1 January 2013	**6,201**	**10,107**	**–**	**2,449**	**18,757**
Charged to profit or loss for the year	**4,126**	**1,019**	**–**	**764**	**5,909**
Arising from acquisition of a subsidiary *(note 39)*	**–**	**–**	**9,777**	**–**	**9,777**
Exchange differences	**67**	**34**	**10**	**89**	**200**
At 31 December 2013	**10,394**	**11,160**	**9,787**	**3,302**	**34,643**

38. DEFERRED TAX (ASSETS)/LIABILITIES *(Continued)*

For the purpose of presentation in statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2013	2012
	HK$'000	*HK$'000*
Deferred tax assets	**(1,226)**	–
Deferred tax liabilities	**35,869**	18,757
	34,643	18,757

At 31 December 2013, the Group had unused tax losses of HK$53,024,000 (2012: HK$102,598,000) available to offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. During the year ended 31 December 2013, tax losses of approximately HK$44,557,000 expired. As at 31 December 2013, the tax losses of HK$13,848,000 can be carried forward indefinitely and the tax losses of HK$39,176,000 will expire in five years' time.

At 31 December 2013, the Group also has other deductible temporary differences of approximately HK$169,160,000 (2012: HK$168,160,000). No deferred tax asset has been recognised in relation to such deductible temporary differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be recognised.

Under the EIT law of PRC, withholding tax is imposed on dividend declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. For investors incorporated in Hong Kong which hold at least 25% of equity interest of those PRC companies, a preferential rate of 5% will be applied. Deferred tax has been provided for in respect of the temporary difference attributable to such profits amounting to approximately HK$207,880,000 (2012: HK$124,020,000). The Group has applied the preferential rate of 5% as all the Group's subsidiaries and an associate in the PRC are directly held by an investment holding company incorporated in Hong Kong. No deferred tax liability has been provided for the remaining of such profits of HK$nil (2012: HK$29,136,000) as the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

39. ACQUISITION OF A SUBSIDIARY

On 5 July 2013, China Water Industry (HK) Limited, an indirect wholly-owned subsidiary of the Company and three independent third parties ("Vendors") entered into the sale and purchase agreement to acquire the entire equity interest of Nanjing Feng Shang for a cash consideration of RMB39,600,000 (HK$50,713,000). The acquisition has been accounted for using the acquisition method. The amount of goodwill arising as a result of the acquisition was HK$8,643,000.

Nanjing Feng Shang is principally engaged in (i) biogas power generating from garbage landfill; (ii) the exploitation, generation and sales of renewable energy; (iii) the sales of biogas power generation machines; and (iv) the sales of electromechanical appliances, in Nanjing.

The management believes that the acquisition will provide a good business opportunity to the Company in the biogas power generation industry in Nanjing, the PRC.

On 9 August 2013, the Company paid RMB8 million to Vendors as a partial settlement.

According to the sale and purchase agreement, the second instalment is needed to paid when i) all the property, plant and equipment had been transferred; ii) all the financial record had be transferred; iii) all the company chop, business certificate, tax registration certificate, entity code certificate and all other company's certificate had be transferred; iv) all the record of the customers and vendors had transferred; v) all the personnel and human resources record had been transferred; vi) Purchaser appointed financial controller in Nanjing Feng Shang.

39. ACQUISITION OF A SUBSIDIARY *(Continued)*

On 30 October 2013, the Company paid RMB27.64 million to Vendors as a partial settlement.

Accordingly, the acquisition is considered to be completed on 30 October 2013.

The final instalment of RMB3.96 million (HK$5.11 million) was paid by the Company on 23 January 2014.

The net assets acquired in the transaction and the goodwill arising are as follows:

	Fair value *HK$'000*
Other intangible assets	41,411
Property, plant and equipment	23,352
Trade and other receivables	7,378
Bank balances and cash	632
Trade and other payables	(8,305)
Bank loans	(12,621)
Deferred tax liabilities	(9,777)
Total identified net assets	42,070
Goodwill arising on acquisition of a subsidiary	8,643
Consideration, satisfied in cash	50,713
Consideration payable *(note 29)*	(5,107)
Cash and cash equivalent balances acquired	(632)
Net cash outflow	44,974

The fair value of trade and other receivables at the date of acquisition of HK$7,378,000 were the same as the gross contractual amounts.

The above goodwill is attributable to Nanjing Feng Shang's strong position and profitability in the biogas power generation business in Nanjing, the PRC. These benefits were not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on the acquisition is expected to be deductible for the tax purpose.

For the two months ended 31 December 2013, Nanjing Feng Shang contributed revenue and profit of HK$5,665,000 and HK$3,307,000 respectively to the revenue and profit of the Group for the year ended 31 December 2013.

Had the business combination been effected on 1 January 2013, the revenue and profit of the Group for the year ended 31 December 2013 would have been HK$532,740,000 and HK$106,591,000 respectively. The directors consider these "pro-forma" numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

40. CAPITAL COMMITMENTS

Capital commitments outstanding at 31 December 2013 not provided for in the financial statements were as follows:

	The Group	
	2013	2012
	HK$'000	*HK$'000*
Contracted but not provided for:		
– Acquisition of prepaid lease payments	**52,784**	–
– Acquisition of concession intangible assets, plant and equipment	**83,768**	5,681
	136,552	5,681

41. OPERATING LEASES

The Group as lessee

The Group leases certain of its factory premises, plant and staff quarters under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to five years. Rental was fixed at the inception of the lease. No provision for contingent rent and terms of renewal were established in the leases.

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

	2013	2012
	HK$'000	*HK$'000*
Within one year	**1,663**	2,282
After one year but within five years	**611**	2,243
After five years	**267**	259
	2,541	4,784

The Group as lessor

Property rental income earned during the year was approximately HK$1,317,000 (2012: HK$617,000). The properties are expected to generate rental yields of 7% (2012: 6%) per annum on an ongoing basis. The properties have committed tenants for twenty years. None of the leases includes contingent rentals.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2013	2012
	HK$'000	*HK$'000*
Within one year	**1,180**	1,088
After one year but within five years	**5,269**	4,880
After five years	**24,055**	24,598
	30,504	30,566

42. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option scheme

The 2011 Scheme

On 3 June 2011, the Company has adopted new share option scheme (the "2011 Scheme") to replace the 2002 Scheme.

Further details are set out in the announcement of the Company dated 29 April 2011. The 2011 Scheme is valid and effective for a period of 10 years after the date of adoption.

Under the terms of the 2011 Scheme, the Directors of the Company may, at their discretion, grant options to the employees, executive or non-executive Directors, business associate, person or entity that provides research, development or other technological support to any shareholder of any member of the Group or any invested entity, any adviser or consultant to any owner of business or business development of any member of the Group or any invested entity (the "Eligible Participants").

A nominal consideration of HK$1 is payable on acceptance of the grant of an option which will entitle the holders to subscribe for shares of the Company during a period of 10 years commencing on the date of acceptance of the option at a price at least the highest of (i) the nominal value of the shares of the Company; (ii) the closing price of the shares of the Company on the Stock Exchange on the date of grant; and (iii) the average of the closing prices of the shares of the Company on the Stock Exchange for the five trading days immediately preceding the date of the grant of the option.

Share options granted to connected person and its associates is subject to the approval of the Independent Non-Executive Directors ("INEDs"). In addition, any grant of share options to a substantial shareholder or an INED or any of their respective associates, in excess of 0.1% of the shares of the Company in issue and with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, is subject to the approval of the shareholders of the Company in a general meeting.

The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the 2011 Scheme and any other schemes of the Company must not exceed 30% of the shares of the Company in issue from time to time. Subject to the shareholders' approval, the maximum number of shares in respect of which options may be granted under the 2011 Scheme shall not exceed 10% of the shares in issue as at the date of the approval, or the maximum number of shares in respect of which options may be granted to any Eligible Participants may not exceed 1% of the shares in issue from time to time in a 12-month period. Except for the entitlements of dividends, bonus, rights declared before the exercise of options, any shares allotted and issued on the exercise of an option will rank pari passu with the other shares in issue at the date of exercise of the relevant option.

As at 31 December 2013 and 2012, no options had been granted and remained outstanding under the 2011 Scheme of the Company.

43. RETIREMENT BENEFIT SCHEMES

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group and its employees each contribute 5% of relevant payroll costs to the scheme, subject to a cap of monthly relevant income of HK$25,000.

The employees of the Group's subsidiaries in the PRC are required to participate in the CPS operated by the local municipal governments. These PRC subsidiaries are required to contribute 8% to 10% of its payroll costs to the CPS. The contributions are charged to the consolidated statement of profit or loss and other comprehensive income as they become payable in accordance with the rules of the CPS.

The total cost charged to profit or loss of approximately HK$10,078,000 (2012: HK$5,164,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

44. LITIGATIONS AND ARBITRATION

(i) Technostore Limited (in liquidation), an indirect non-wholly-owned subsidiary of the Company

On 30 May 2007, a Petition was filed under sections 168A and 177 of the Company Ordinance (Cap. 32) to windup Technostore Limited ("Technostore"), a company in which the Company held 50.01% of the issued shares. The Petition was commenced by Mr. Mao Chi Fai ("Mr. Mao"), the non-controlling shareholder holding 49.99% of the issued shares of Technostore. Following court hearings regarding the winding-up proceeding in the preceding year, on 29 August 2008, the Court made an order to appoint Kenny Tam & Company ("Liquidator"), Certified Public Accountant as a liquidator of Technostore and Happy Hour Limited and Mr. Mao to become members in the committee of inspection. In October 2009, all stocks of Technostore with costs valued at approximately HK$2.2 million transferred by the Official Receiver's Office to the Liquidator were disposed at the consideration of around HK$0.62 million by public tender. Preferential and ordinary dividends were distributed in November 2010. Further, a sum of less than HK$1,000 was realised from the bank accounts of Technostore.

44. LITIGATIONS AND ARBITRATION *(Continued)*

(i) Technostore Limited (in liquidation), an indirect non-wholly-owned subsidiary of the Company *(Continued)*

On 25 August 2011, the Liquidator indicated that no additional assets of Technostore have been realised and it anticipates that there will be no further assets for realisation. The Liquidator has further indicated that it will apply to the Court for his release as the liquidator of Technostore after the determination of a validation order.

On 29 February 2012, the Liquidator further advised that there was no additional assets realisation since 25 August 2011. The Liquidators also advised that they are preparing an application for validation order and will file their release application pending sanction of the validation order by the Court. On 11 August 2012, the Liquidator also advised that they are in the course of preparing the application of the validation order. As at 11 August 2012, the Liquidator advised that the amount of the said validation order should be within HK$0.4 million.

On 9 March 2013, the Liquidator advised that the said application of the validation order will not be pursued as there is no benefit to the creditors for taking further action on the same time. The Liquidator also advised that, as a consequence, there will be no further outstanding assets to be handled and the Liquidator will proceed to make an application to the Court for his release. As at 16 August 2013, the Liquidator informed the Company that it is presently not in position to make an application to the High Court to release the duty of Liquidator as the necessary documents from Mr. Mao not yet to receive. The directors of the Company believe that no material future outflows of resources from the Group is expected and sufficient provision on assets related to Technostore have been provided. It is unlikely that there will be a material adverse financial impact of the Group.

44. LITIGATIONS AND ARBITRATION *(Continued)*

(ii) 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 (the "Deposit") to Yunnan Chaoyue Gas for the purpose of obtaining the operation and management right of the Yunnan Dian Lake project (the "Project").

Pursuant to the cooperation contract, Yunnan Chaoyue Gas shall refund the Deposit to Guangzhou Hyde within nine months once it was unsuccessful 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 (the "Commission") for arbitration on 24 February 2012. The Commission accepted the case and started a trial on 5 June 2012. After the trial, the arbitration tribunal ruled an award on 12 June 2012, adjudging that:

(1) Yunnan Chaoyue Gas should pay Guangzhou Hyde the principal of RMB8.56 million and overdue interests thereon; and

(2) The arbitration fees should be borne by Yunnan Chaoyue Gas.

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 PRC. As Yunnan Chaoyue Gas has not performed repayment obligation under the award on time, Guangzhou Hyde applied to Kunming Intermediate People's Court for civil enforcement on 21 July 2012, and Kunming Intermediate People's Court has accepted such application. Up to the date of approval of these financial statements, this case is still in the process of execution by Kunming Intermediate People's Court.

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

Save as disclosed in this note and note 27, the Company is not aware of any other significant proceedings instituted against the Company.

45. MATERIAL RELATED PARTY TRANSACTIONS

(a) The amounts due from subsidiaries are unsecured, interest-free and repayable on demand.

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

(b) During the year ended 31 December 2013, an indirect wholly-owned subsidiary of the Company acquired a motor vehicle from the spouse of Mr. Wang De Yin, the Company's chairman and Chief Executive Officer, at a consideration of RMB1,100,000 (approximately HK$1,386,000) for the Group's daily use.

(c) **Compensation of key management personnel**

Remuneration for key management personnel, including amounts paid to the Company's directors and certain of the highest paid employees as disclosed in note 14, is as follows:

	2013 ***HK$'000***	2012 *HK$'000*
Short-term benefits	**7,897**	4,733
Post-employment benefits	**80**	72
	7,977	4,805

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

46. EVENTS AFTER THE REPORTING PERIOD

Apart from those disclosed elsewhere in these financial statements, the Company and the Group had the following events after the reporting period:

(i) **Series B Bonds closing**

All conditions precedent in respect of subscription of the Series B Bonds have been fulfilled and Series B Closing took place on 14 January 2014 with the issue of Series B Bonds in the principal amount of HK$100 million convertible into ordinary shares of the Company at the initial conversion Price of HK$1.65 per share. The bond has a maturity date of one year (ie maturity date falling on 14 January 2015), bears interest at 7.5% per annum payable semi-annually coupon and, on maturity, the bond will be redeemed at an aggregate price of 100% of the outstanding principal amount plus an interest of 12% per annum, less the interest amount already paid on the bond. The conversion price of HK$1.65 is subject to certain anti-dilution adjustments and certain events such as changes in the share capital of the Company including consolidation and sub-division of shares, capitalisation of profits or reserves, capital distribution, rights issue, or subsequent issue of securities in the Company at substantial discount (ie less than 90%) to market value.

46. EVENTS AFTER THE REPORTING PERIOD *(Continued)*

(ii) Termination of the framework agreement

On 21 February 2013, the Company entered into a framework agreement (the "Agreement") with 廣東新科迪環保科技有限公司 (Guangdong Sincody Science Technology Co. Ltd) (the "Vendor") for the purpose of acquiring 51% of the entire equity interest of 東莞市科迪環保科技有限公司 (Dongguan Kedi Environment Protection Science and Technology Co., Ltd)(the "Target Company") at a consideration not more than RMB40.80 million. The acquisition will be proceeded once the Vendor injects all assets and liabilities of the power plant into the Target Company and have satisfied the requirement of due diligence investigation. The power plant generates power by burning biogas from garbage landfill and has been planned to commence power generation in February 2013. Pursuant to the termination clause under the Agreement, the Company and Vendor fail to enter into formal agreement within 6 months after execution of the Agreement and no extension of time has been agreed, the Agreement will automatically terminate. On 21 August 2013, the Company and the Vendor have unanimously agreed to extend the long stop date from 20 August 2013 to 31 December 2013 (the "Long Stop Date") by entering into the extension agreement.

After several rounds of negotiation following the Long Stop Date, the Company and the Vendor considered that there had not been any substantial progress in the transaction and therefore determine not to proceed with the acquisition on 7 January 2014.

The directors of the Company are of the view that the termination does not have any material adverse impact on the financial position and business operation of the Company.

46. EVENTS AFTER THE REPORTING PERIOD *(Continued)*

(iii) Acquisition of Shenzhen City Li Sai Industrial Development Limited ("Shenzhen Li Sai")

On 23 January 2014, Greenspring (Nanjing) Recycling Resources Investment Co., Ltd, an indirect wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Mr. Huang Han Jian (黃漢健) and Ms. Xiao Ying (肖瑛) for the purpose of acquiring approximately 88% of the equity interest of Shenzhen Li Sai (深圳市利賽實業發展有限公司), a company incorporated in the PRC, at a consideration of RMB59.84 million (the "Consideration"), payable as follows:–

– 30% of the Consideration (ie RMB17,952,000) shall be paid within five business days upon the signing of the S&P and obtaining of the consent from various government authorities in the PRC;

– 30% of the Consideration (ie RMB17,952,000) shall be paid within five business days upon the completion of the handover procedures (ie the industrial and commercial changes regarding the share transfer);

– 30% of the Consideration (ie RMB17,952,000) shall be paid within five business days upon the change of registration of the sale shares from the Vendors to the name of the Purchaser and the date of issuance of the foreign investment enterprise business licence to Shenzhen Li Sai;

– The remaining balance shall be paid within 3 months upon the date of issuance of the foreign investment enterprise business licence to Shenzhen Li Sai.

Shenzhen Li Sai is a limited liability company incorporated in Shenzhen, the PRC, with a registered capital of RMB30 million and is principally engaged in the (i) investment holding; (ii) environmental technology development and related technical services; (iii) treatment of domestic waste water, pollution and noise from the commercial and industrial sectors; and (iv) engineering design of environmental pollution controls. Shenzhen Li Sai has been granted the license to operate environmental pollution control facilities (limited to Class B industrial waste water with an expiry date to April 2014).

The directors of the Company strongly believe that the acquisition, which allows the Group to expand into the waste treatment and environmental protection industry, is an investment opportunity which complies with the long-term business strategy of the Group.

Up to the date of approval of these financial statements, the Group has not paid any consideration due to the conditions for completion have not been fulfilled by the vendors. The acquisition is not yet completed.

46. EVENTS AFTER THE REPORTING PERIOD *(Continued)*

(iv) Acquisition of Yingtan City Run De Property Company Limited

On 19 March 2014, Jiangxi Shunda entered into the Sale and Purchase Agreement with Mr. Dong Gao Zhong (董高忠) and Mr. Chen Su Jiang (陳蘇江) (collectively known as "Vendors") for the purpose of acquiring approximately 80% of the issued share capital of the Yingtan City Run De Property Company Limited ("Run De Property") (鷹潭市潤德置業有限公司) for an aggregate consideration of RMB30,000,000. Run De Property is principally engaged in the property development and sales of the "Xinduhui" Real Estate Project (the "Project") ("新都匯房地產項目") in Guixi, the PRC. The development of the Project has been divided into two phases. The first phase of the Project has basically been completed and start to pre-sale and the second phase of the Project is currently under construction. Pre-selling of units in second phase is expected to be commenced in July 2014 and the construction of second phase is expected to be completed in December 2015. Up to the date of approval of these financial statements, RMB15,000,000 representing 50% of consideration has paid to the Vendors upon the signing of Sale and Purchase Agreement. The remaining balance RMB15,000,000 representing 50% of consideration will be paid upon completion of the change of registration regarding the transfer of the Sale Shares from the name of the Vendors to the name of the Jiangxi Shunda. Accordingly, the acquisition has not been completed.

(v) Acquisition of Hunan Huiming Environmental Technology Limited ("Huiming Technology") (湖南惠明環境科技有限公司)

On 21 March 2014, Greenspring entered into the Sale and Purchase Agreement with Hunan Huiming Environmental Energy Limited ("Hunan Huiming") 湖南惠明環保能源有限公司 and Mr. Huang Jian Xin (黃建新) (collectively known as "Vendors") to acquire the entire issued share capital of Huiming Technology for a consideration of RMB15,000,000. Huiming Technology is principally engaged in (i) the development of eco-products; (ii) the research, production, and sales of urban roads mechanized cleaning equipment; and (iii) the development and utilization of environmental energy sources. Huiming Technology currently possesses of a waste landfill biogas resource utilization project in Zhuzhou (the "Zhuzhou Biogas Project") and have the right for the exclusive use of all the biogas resources from the waste landfill sites in the city of Zhuzhou for a period until 1 October 2023. The existing annual power production output for the Zhuzhou Biogas Project is approximately 15,750,000 kilowatt and the average electricity price is RMB0.695 per kilowatt. Up to the date of approval of these financial statements, the conditions for completion have not been fulfilled by the Vendors. The Group has not paid any consideration and the acquisition is not yet completed.

(vi) Acquisition of Hunan Feng Ming Energy Technology Limited

On 21 March 2014, Greenspring entered into the Sale and Purchase Agreement with Hunan Huiming and Mr. Hung Ye Fan (洪也凡) (collectively known as "Vendors") to acquire the entire issued share capital of Hunan Feng Ming Energy Technology Limited (湖南豐銘能源科技有限公司) ("Feng Ming Technology") for an aggregate consideration of RMB3,000,000. Feng Ming Technology is principally engaged in (i) the development of eco-products; (ii) research and development of new energy sources. Feng Ming Technology currently possesses of a solid waste disposal sites biogas resource utilisation project in Liuyang (the "Liuyang Biogas Project"). Feng Ming Technology has not yet commenced business. The estimated annual purified landfill gas output for Liuyang Biogas Project is approximately 3,520,000 m^3. Up to the date of approval of these financial statements, the conditions for completion have not been fulfilled by the Vendors. The Group has not paid any consideration and the acquisition is not completed.

46. EVENTS AFTER THE REPORTING PERIOD *(Continued)*

(vii) Formation of Joint Venture Company in Changsha, PRC

On 21 March 2014, Greenspring and Hunan Huiming entered into the Joint Venture Agreement pursuant to which Greenspring and Hunan Huiming have agreed to establish the Joint Venture Company which will be owned as to 91% by Greenspring and as to 9% by Hunan Huiming. Pursuant to the terms of the Joint Venture Agreement, the registered capital of the Joint Venture Company will be RMB30,000,000. Pursuant to the Changsha Contracts (as defined the announcement of the Company dated 21 March 2014), Hunan Huiming has been granted the exclusive rights to operate and utilize the landfill gas collected from the solid wastes in the Changsha Landfill Site for an exclusivity period of 35 years expiring on 10 October 2039 (the "Expiration Date"). Apart from the landfill gas resources which has been exploited for the operation of the Power Plant owned by Hunan Huiming, other landfill gas resources in the Changsha Landfill Site are not yet exploited and utilized (the "Unexploited Landfill Gas Resources"). The Joint Venture Company will be established for carrying out the purification process and exploitation of the Unexploited Landfill Gas Resources. Hunan Huiming agreed to transfer the exclusive rights relating to the operation and utilization the Unexploited Landfill Gas Resources to the Joint Venture Company at RMB23,000,000. Up to the date of approval of these financial statements, the Joint Venture Company has not been established.

FIVE YEARS FINANCIAL SUMMARY

	2009 HK$'000	2010 HK$'000	2011 HK$'000 (restated)	2012 HK$'000 (restated)	**2013 HK$'000**
Results					
Turnover	202,108	238,771	266,117	327,885	**510,959**
Finance costs	(11,993)	(9,534)	(31,948)	(31,744)	**(15,352)**
(Loss) profit before tax	(300,227)	(166,667)	(521,225)	81,920	**152,657**
Income tax expense	(8,448)	(10,813)	(13,425)	(35,998)	**(46,697)**
(Loss) profit for the year (including discontinued operations)	(342,485)	(149,796)	(534,650)	45,922	**105,960**
Discontinued operations					
(Loss) profit for the year from discontinued operations	(33,810)	27,684	–	–	**–**
Assets and liabilities					
Property, plant & equipment	103,164	97,598	97,250	111,733	**161,433**
Prepaid lease payments	42,854	40,621	43,002	41,629	**41,381**
Concession intangible assets	416,718	483,829	520,477	530,591	**622,630**
Investment property	–	–	–	17,390	**21,037**
Other intangible assets	1,166,296	142,373	10,292	10,292	**59,763**
Available-for-sale investments	65,040	29,898	53,959	68,439	**95,781**
Interest in associates	57,853	281,407	37,962	32,831	**32,680**
Deposit paid for acquisition of plant and equipment	–	–	–	5,663	**272**
Deposits paid for acquisition of subsidiaries	50,901	–	–	3,589	**–**
Deposit paid for acquisition of prepaid lease payments	–	–	–	–	**40,701**
Deferred tax assets	–	–	–	–	**1,226**
Net current assets (liabilities)	(306,617)	(303,574)	(167,390)	40,870	**(39,225)**
Total assets less current liabilities	1,596,209	772,152	595,552	863,027	**1,037,679**
Share capital	270,638	324,765	410,332	555,166	**555,166**
Reserves	190,659	124,128	(316,962)	(90,223)	**(11,492)**
Non-redeemable convertible preference shares of a subsidiary	587,696	–	–	–	**–**
Equity component of convertible bonds of a subsidiary	84,045	–	–	–	**–**
Non-controlling interests	210,496	179,164	190,799	219,904	**282,827**
Bank borrowing due after one year	23,909	21,253	18,309	34,532	**26,710**
Other loans – due after one year	44,902	47,487	70,686	34,572	**52,619**
Loans from a minority shareholder	–	–	–	–	**–**
Amount due to minority shareholder of subsidiaries	–	–	–	–	**–**
Convertible bonds	–	3,000	138,568	–	**–**
Convertible bonds of a subsidiary	118,427	–	–	–	**–**
Government grants	60,040	64,074	71,345	90,319	**95,980**
Deferred tax liabilities	5,397	8,281	12,475	18,757	**35,869**
	1,596,209	772,152	595,552	863,027	**1,037,679**
Earnings (loss) per share					
Basic	(15.68 cents)	(32.72 cents)	(139.11 cents)	3.96 cents	**5.53 cents**
Diluted	(15.68 cents)	(32.72 cents)	(139.11 cents)	3.96 cents	**5.53 cents**