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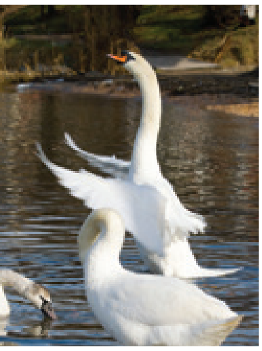

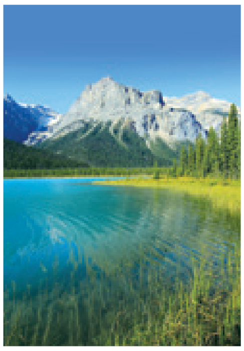

Annual Report 2013

China Environmental Technology Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 646

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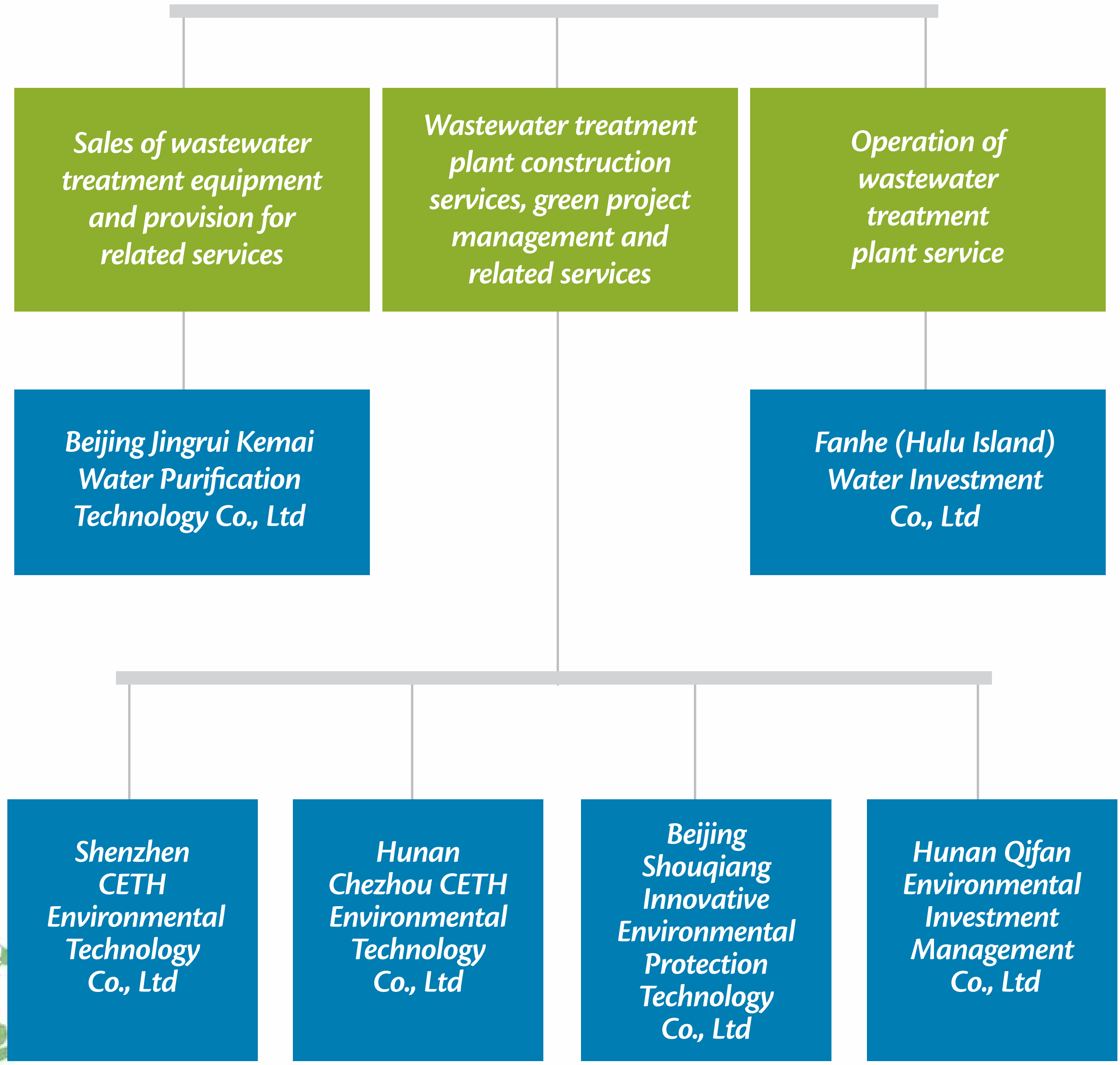
BUSINESS STRUCTURE

CORE BUSINESS STRUCTURE AND FUNCTIONS

CETH



CORPORATE PROFILE

China Environmental Technology Holdings Limited ("CETH" or the "Company" and its subsidiaries (together the "Group")) is principally engaged in the environmental protection business including the provision of technology, products, equipment and system integration related to wastewater treatment.

The Group has acquired Fanhe (Beijing) Water Investment Co, Ltd in April 2010 and Beijing Jingrui Kemai Water Purification Technology Co Ltd in November 2010, marking its official involvement in the wastewater treatment business and the patented water purification business for the Group in the PRC and the first step in its future development of environmental protection technology and related industries.

In November 2011, the Group has established a wholly foreign owned enterprise company named Beijing Shuoqiang Innovative Environmental Technology Co., Ltd ("Beijing Shuoqiang") with Beijing Capital (Hong Kong) Limited (a wholly-owned subsidiary of Beijing Capital Co., Ltd ("Beijing Capital")), Beijing Shuoqiang engages in the investment and operation of urban environmental projects, the sales and provision of special purpose environmental equipment, technology promotion and consultation services relating to our magnetic separation water treatment equipment. With the state-of-the-art magnetic separation water treatment technology, the Group obtained an "Invention Patent Certificate" issued by the State Intellectual Property Office of the PRC and a "High-tech Enterprise Certificate" issued by the Beijing Municipal Science and Technology Commission respectively in 2012.

CETH was incorporated in the Cayman Islands on 31 August 2001 and listed on the Stock Exchange of Hong Kong on 28 March 2002. It is mainly held by the Gentle International Holdings Limited and its core shareholder Beijing Capital (Hong Kong) Limited, a wholly-owned subsidiary of Beijing Capital, a listed company on the Shanghai Stock Exchange (stock code: 600008) and a leading large scale state-owned water treatment company in the PRC.

CREATING CORPORATE VALUE AND TRANSLATE INTO ITS COMPETITIVE ADVANTAGE BY BUSINESS DIVERSIFICATION

CHAIRMAN'S STATEMENT

To All Shareholders:

It has been an extremely tough and challenging year for the Group. With the rising cost of production and the competitive business environment in the PRC, our development in environmental protection business has gradually slowed down. To accommodate the sudden change of the business environment, the Group has implemented a series of proactive approaches and internal control policies to eliminate the unfavorable effects.

To strengthen the competitiveness of the Group in the environmental protection industry, and obtain the necessary engineering design qualification for exploring more business opportunities in Shenzhen and the Southern China region, we acquired the entire equity interest of Shenzhen Huaxin Zhongshui Protection Engineering Company Limited on 12 April 2013. In addition, Jiangsu Branch Office has also been established in 8 July 2013 to extend our water quality maintenance service for the rivers and lakes in the Jiangsu province.

We also expanded our service scope from sales of water treatment goods to provision of comprehensive and one-stop solution for environmental protection business. On 24 April 2013, service for the operation, management and maintenance of our magnetic separation water treatment system and equipment for Project Empress Xiao River has been offered to the Water Authority of Beijing.

To diversify our business, the Group has commenced the business of trading of petrochemical products in March 2014. We believe that such diversification of business can enable the Group to broaden its income stream and explore more business opportunities to strengthen our cash flow and become our recurring revenue in future.

Looking forward, with our patented technology and advance applications of our magnetic separation water treatment system and equipment in water quality maintenance and purification of the rivers and lakes throughout the PRC, we are confident that more projects can be secured in line with The 12th Five-Year Environmental Protection Plan (2011–2015).

Last but not least, I would like to take this opportunity to thank the management and staff members for their passionate and hardworking attitude towards the Group during the year. I would also like to extend my wholehearted thanks to all valued business partners, customers and stakeholders for their continued support.

On behalf of the Board
Xu Zhong Ping
Chairman

Hong Kong, 12 May 2014

PROVISION OF COMPREHENSIVE SOLUTION FOR WATER QUALITY MAINTENANCE OF RIVERS AND LAKES AND THE MANIPULATION PROJECT OF THE RURAL ENVIRONMENT WILL BECOME OUR CORE BUSINESS

MANAGEMENT DISCUSSION AND ANALYSIS

Water quality control and maintenance of Empress Xiao River

Pursuant to a resolution of the Board of Directors passed on 25 September 2012, the Company's financial year-end date was changed from 31 March to 31 December. Accordingly, the current figures cover a twelve-month period from 1 January 2013 to 31 December 2013, and the comparative financial period covers a nine-month period from 1 April 2012 to 31 December 2012, which may not be comparable with amounts shown for the current year.

Results

For the year ended 31 December 2013, the Group recorded a turnover of approximately HK$56,311,000 (nine months ended 31 December 2012: HK$51,031,000). The Group's loss attributable to owners of the Company was approximately HK$64,568,000 (nine months ended 31 December 2012: HK$64,677,000). Gross profit margin was approximately 20.3% as compared to 1.5% in last year.

Business Review

According to the 12th Five-Year Environmental Protection Plan (2011–2015), the water quality in key rivers and lakes that were polluted must be improved by 2015. The key rivers and lakes are scattered across 23 provinces and regions, most factories in coastal areas will be upgraded to meet the strict environmental protection and pollutant discharge standards. To help the Chinese government solve the pollution problem along key rivers and lakes, the Group proactively explored projects of water quality enhancement during the year under review.

To meet the market demand and needs, the Group has continuously modified its business strategies and broadened its service scope to provide a comprehensive and one-stop service to our targeted projects.

On 12 April 2013, the Group acquired the entire equity interest in Shenzhen Huaxin Zhongshui Protection Engineering Company Limited ("Shenzhen Huaxin"). The acquisition of Shenzhen Huaxin aims to strengthen the competitiveness of the Group in the environmental protection industry, and obtain the necessary engineering design qualification for exploring more business opportunities in Shenzhen and the Southern China region. In additions, Shenzhen CETH has also established a Jiangsu Branch Office in 8 July 2013 to focus on the development of the water quality maintenance service for rivers and lakes in the Jiangsu province.

MANAGEMENT DISCUSSION AND ANALYSIS

Comprehensive manipulation project of the rural environment along the lake in Xingning Town, Bailang County, Zixing City, Hunan province

With the continuous promotion in the past few years, the Group's magnetic separation water treatment devices (the "Equipments") was well received in the market, especially for the emergency processing of water pollution and the water quality maintenance and purification of the rivers and lakes.

On 24 April 2013, a contract (the "Contract") has been signed between the Water Authority of Beijing and the Group's wholly-owned subsidiary, Beijing Jingrui Kemai Water Purification Technology Co., Ltd. ("Beijing Jinrui") for the operation, management and maintenance of our Equipments for Project Empress Xiao River in Beijing.

On 27 June 2013, Beijing Jingrui has entered into a sales contract with the management committee of Chanba ecological zone (the "Management Committee"). Such contract is the second contract with the Management Committee under the Framework Agreement, the first contract being entered into on 12 July 2011.

With our state-of-the-art magnetic separation patented technology and its effectiveness in water treatment, the Group's mobile magnetic separation water treatment system devices were well positioned in the market.

To explore more business opportunities in these areas, especially those one-stop "green projects" specifying on water treatment in rivers and lakes, the Group has initiated a strategic alliance among the corporations and the municipal governments so as to strengthen our market competitiveness.

Outlook

Looking forward, the Group will try to increase its profit margin and to seize more business opportunities which will in turn enhance the long term development of the Group, such as focusing on water quality maintenance of rivers and lakes and also the manipulation project of the rural environment.

Leveraging on the advantages of the patented technology of magnetic separation and its high efficiency in wastewater treatment, the market for large scale water quality maintenance projects have been successfully explored. To further expand the market share of the environmental protection industry, the wastewater treatment and watershed management for villages and small towns as well as those "green projects" focusing on pollution control will be our target market.

Comprehensive wastewater treatment service for the electrolytic manganese production line of Hunan Dongfang Mining Co., Ltd

With the rapid economic growth and the strengthened awareness of environmental protection during the 12th Five-Year Plan, the demand for comprehensive technology and solutions for environmental protection is high, and further creates more business opportunities for the Group. We believe our flagship environmental project in Dongjiang Lake will further solidify its business fundamental in the environmental protection project of the rivers and lakes. It is also anticipated that these kinds of projects will contribute stable recurring revenue to the Group in the future.

Most importantly, a series of prudent management policies, including cautious cost control, reallocation of resources and business restructuring will continue to be implemented so as to increase our financial liquidity, strengthen our business fundamental and further maintain the momentum growth in our environmental protection related businesses. To achieve this, internal control will continue to be strengthened so as to make sure that all objectives can be attained effectively within the Group.

Employees and Remuneration Policy

As at 31 December 2013, the Group had 174 employees (31 December 2012: 149 employees). The remuneration policy and packages are reviewed annually by the management and the Remuneration Committee. The Group remunerates its employees based on their performance, work experience and the prevailing market rate. The remuneration packages include basic salary, double pay, commission, insurance and mandatory provident fund. The Group operates a share option scheme for the purpose of providing incentives and rewards to (among others) eligible Directors and employees of the Group to recognise their contribution to the result of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and Financial Resources

Liquidity

The Group continued to maintain a stable financial position. As at 31 December 2013, cash and bank balances including restricted and pledged fixed deposits of the Group were HK$43,711,000 (2012: HK$39,959,000). The cash and bank balances consisted of about 14.1% in Hong Kong dollars, and 85.9% in Renminbi.

As at 31 December 2013, the Group had total assets of HK$359,653,000 (2012: HK$336,527,000) and total liabilities of HK$234,704,000 (2012: HK$153,341,000). As at 31 December 2013, the current ratio was 0.85 (2012: 1.03), calculated on the basis of current assets of HK$81,512,000 (2012: HK$74,213,000) over current liabilities of HK$96,370,000 (2012: HK$71,714,000).

The Group's entrusted loan and bank loans amounted to HK$157,480,000 (2012: HK$86,304,000). The Group's borrowings, denominated in Renminbi, mainly comprise mortgage loans bearing fixed interest rates. The Group's gearing ratio, being the ratio of the total borrowings to total assets, was 43.8% (2012: 25.6%).

Charge on assets

As at 31 December 2013, the Group's income stream from operating concession right of HK$236,908,000 (31 December 2012: HK$224,613,000), leasehold land and buildings of HK$14,390,000 (31 December 2012: HK$Nil) and bank deposits of HK$1,182,000 (31 December 2012: HK$386,000) was pledged with a bank to secure banking facilities granted to the Group.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Xu Zhong Ping, aged 51, is the Chairman and an executive Director of the Company. Mr. Xu is a director of Gentle International Holdings Limited. Mr. Xu has over 20 years' experience in enterprise management, business investment and international economic strategic cooperation. He has been a standing director of the China Council for the Promotion of International Economy and Culture* (中國國際經濟文化促進會) since 1996. Mr. Xu studied statistics and graduated from Nanjing University of Finance & Economics (formerly known as Nanjing Liangshi Economics College*), the PRC in 1986. Mr. Xu joined the Group in 2009.

Mr. Xu was a director of each of the following private companies registered in Hong Kong, which was dissolved by striking off pursuant to Section 291 of the Companies Ordinance (Chapter 32, Laws of Hong Kong): CVIC Commercial Development Co., Limited (中創商業發展有限公司), Gorden Hong Kong Limited (高登香港有限公司), Jumbo Star Development Limited (百利星發展有限公司) and Rich Harbour Holdings Limited (譽港集團有限公司). According to Mr. Xu, each of the said companies was solvent at the time of it being struck off.

Mr. Pan Yutang, aged 50, is the chief executive officer and an executive Director of the Company. Mr. Pan holds a bachelor's degree in Economics from Nanjing University of Finance & Economics. Mr. Pan worked in China National Export Bases Development Corporation, formerly belonging to the Ministry of Foreign Economic Relations and Trade. He then went on to serve as Financial Manager, Deputy General Manager as well as General Manager of Plymouth Co. Ltd., China Resources (Holdings) Company Limited. In 2002, he worked in East Holding Group, responsible for the project development and Mergers and Acquisitions. He completed many restructuring, merging and back-door listing projects. Mr. Pan currently is the vice chairman of Daisy Companies, member of the Investment Committee of China Daisy Capital, and vice chairman of the Alumni Association of Nanjing University of Finance & Economics. Mr. Pan joined the Group in 2012.

Mr. Zhang Fang Hong, aged 48, is an executive Director of the Company. Mr. Zhang is a director of Gentle International Holdings Limited and Yield Tech International Holdings Limited. Mr. Zhang holds a bachelor's degree in Economics from Nanjing University of Finance & Economics (formerly known as Nanjing Liangshi Economics College*), the PRC, a master's degree in Economics from Zhongnan University of Economics and Law (formerly known as Zhongnan University of Finance and Economics*), the PRC and an executive master's degree in business administration from China Europe International Business School, the PRC. He has served various executive roles in several companies in the PRC and Hong Kong. During the period from 2 October 2007 to 28 December 2007, Mr. Zhang served as an executive director of Great World Company Holdings Limited (formerly known as T S Telecom Technologies Limited), the shares of which are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("the Stock Exchange") (stock code: 8003). He is currently a director of Best Wish Technology Limited (展望科技有限公司), which is a private company incorporated in Hong Kong. Mr. Zhang joined the Group in 2009.

Mr. Xu Xiao Yang, aged 46, is an executive Director of the Company. He has over 10 years of experience in foreign trading, logistics, energy, education and real property businesses. Before joining the Company, he has worked as an executive director of Australian International Investment Group and Australia Queensland Education Investment Group. Mr. Xu graduated from Beijing Foreign Language Institute and was major in English. Mr. Xu joined the Group in 2008.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Non-executive Director

Mr. Ge Ze Min, aged 61, is a non-executive Director of the Company. Mr. Ge is a director of Gentle International Holdings Limited. Mr. Ge is a senior economist and holds a bachelor's degree in Finance from the Central University of Finance and Economics (formerly known as Central College of Finance and Economics*), the PRC. Since 2003, Mr. Ge has been the assistant to the general manager and the head of international operations of Beijing Capital Co., Limited and is in charge of exploring overseas business opportunities and overseeing the company's overseas operations. Mr. Ge also held various management positions in several companies both in the PRC and Hong Kong. He has extensive experience and business development capabilities in international finance, domestic and international investments, and international trade. He is also a general manager and a director of Beijing Capital (Hong Kong) Limited. Mr. Ge served as a non-executive director of Richly Field China Development Limited (formerly known as Dickson Group Holdings Limited) from 23 July 2008 to 20 February 2009, the shares of which are listed on the Stock Exchange (stock code: 313) and he also served as an executive director of New Capital International Investment Limited, the shares of which are listed on the Stock Exchange (stock code: 1062) from 5 February 2010 to 21 March 2012. Mr. Ge was a director of Superford Industries Limited (盛裕實業有限公司), a private company registered in Hong Kong, which was dissolved by striking off pursuant to Section 291 of the Companies Ordinance. According to Mr. Ge, the said company was solvent at the time of it being struck off. Mr. Ge joined the Group in 2009.

Mr. Ma Tianfu, aged 67, is a non-executive Director of the Company. Mr. Ma is a director of Gentle International Holdings Limited and Superform Investment Development Limited; he is also a director and senior engineer of Shanghai Shi Dong Kou Embankment Development Engineering Company Limited (上海石洞口圍堤開發工程有限公司). Mr. Ma graduated from Shanghai University of Electric Power (formerly known as Shanghai Electric Power School) in the PRC and completed a four-year study in thermal engineering automatic system in power plants and has years of experience in the field of electricity power engineering and construction projects. He was awarded a Science and Technology Progress Award of Shanghai in 1993 issued by the Science and Technology Progress Awards Jury of Shanghai Municipality. Mr. Ma was issued with a certificate as a researcher for life of the Enterprises Committee of the Chinese Academy of Management Science in 2002. Mr. Ma joined the Group in 2012.

Independent Non-executive Directors

Mr. Wong Kam Wah, aged 55, is an independent non-executive Director of the Company. He is the chairman of the Audit Committee and Remuneration Committee, and a member of Nomination Committee respectively. Mr. Wong was an independent non-executive director of South East Group Limited (stock code: 726) from 1 December 2002 to 20 December 2013. He is a fellow member of the Association of Chartered Certified Accountants and an associate member of each of the Hong Kong Institute of Certified Public Accountants, the Hong Kong Institute of Company Secretaries and the Institute of Chartered Secretaries and Administrators. Mr. Wong is currently the principal of a certified public accountants firm. He has extensive experience in accounting and auditing work. Mr. Wong joined the Group in 2009.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Xin Luo Lin, aged 64, is an independent non-executive Director of the Company. He is the Chairman of the Nomination Committee, a member of Audit Committee and Remuneration Committee respectively. Mr. Xin was a postgraduate from the Peking University in the People's Republic of China in 1980. He was a visiting scholar at the Waseda University, Japan between 1980 and 1983, an honorary research associate at the University of British Columbia, Canada during 1983 and 1984, and a visiting fellow at the Australian National University, Australia from 1984 to 1985. He was appointed as an adviser to the chairman of Guangdong Capital Holdings Limited from 1998 to 2000. He was appointed as a Justice of the Peace in New South Wales of Australia in 1991. Mr. Xin is a co-author of a book titled "China's iron and steel industry policy: implications for Australia". He is an independent investor with over 20 years of experience in investment banking in the PRC, Hong Kong and Australia. Mr. Xin was a non-executive director of Sino-Tech International Holdings Limited (stock code : 724), a company listed on the Hong Kong Stock Exchange, during the period from 26 August 2010 to 8 June 2012 and is currently:

(i) an independent non-executive director of Enerchina Holdings Limited (stock code: 622) listed on the Hong Kong Stock Exchange;

(ii) an independent non-executive director of Sinolink Worldwide Holdings Limited (stock code: 1168) listed on the Hong Kong Stock Exchange;

(iii) an independent non-executive director of Central China Real Estate Limited (stock code: 832) listed on the Hong Kong Stock Exchange;

(iv) a non-executive director and honorary chairman of Asian Capital Holdings Limited (stock code: 8295) listed on the Hong Kong Stock Exchange;

(v) a director of Mori Denki Mfg. Co., Ltd., a public company listed on the Tokyo Stock Exchange; and

(vi) a director and vice chairman of Oriental Technologies Investment Limited, a public company listed on the Australian Stock Exchange.

Mr. Xin joined the Group in 2011.

Professor Zhu Nan Wen, aged 45, is an independent non-executive Director of the Company. He is a member of the Audit Committee, Nomination Committee and Remuneration Committee respectively. Professor Zhu obtained his doctoral degree in Environmental Engineering, Tongji University, the PRC in 2000, a master degree in microbiology, Zhe Jiang University (formerly known as Zhejiang Agriculture University* (浙江農業大學)), the PRC in 1996, and a bachelor degree in crop, Faculty of Agronomy*, Zhe Jiang University, the PRC in 1991. Professor Zhu has been working at Shanghai Jiao Tong University, the PRC since 2000. He has been a professor of School of Environmental Science and Engineering, Shanghai Jiao Tong University, the PRC since August 2005. He was an associate professor and a lecturer in the same school during the period from August 2001 to August 2005 and from March 2000 to July 2001 respectively. Professor Zhu is also the head of the Institute of Solid Waste Treatment and Disposal* (固體廢棄物處理處置技術研究所) at Shanghai Jiao Tong University, the PRC and is appointed as an expert in assessment and planning in selected projects of the Ministry of Science and Technology of the PRC (中華人民共和國科學技術部), Science and Technology Commission of Shanghai Municipality (上海市科學技術委員會), the PRC and Shanghai Chengtou Corporation (上海市城市建設投資開發總公司), the PRC. Professor Zhu has participated in various investment projects in wastewater treatment, environmental microbiology and waste treatment related fields which were registered as invention patents in the PRC. Professor Zhu joined the Group in 2009.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Professor Zuo Jiane, aged 46, is an independent non-executive Director of the Company. He is a member of the Audit Committee, Remuneration Committee and Nomination Committee respectively. Professor Zuo graduated from Tsinghua University with a bachelor degree in Environment Science and Engineering in 1991. In 1995, he obtained a doctorate degree from the Department of Environmental Science and Engineering of Tsinghua University. During 1998 to 1999, he acted as a visiting scholar in the University of Newcastle. Professor Zuo joined the Group in 2011.

Working experiences of Professor Zuo are as follows:

(i) Lecturer and associate professor of the Department of Environment Science and Engineering of Tsinghua University from 1995 to 2004;

(ii) Professor of the Department of Environment Science and Engineering of Tsinghua University from 2004 to 2010;

(iii) The Deputy Head of the Department of Environment Science and Engineering of Tsinghua University in 2010; and

(iv) The Associate Dean of the Department of Environment Science and Engineering of Tsinghua University since 2011.

Research directions of Professor Zuo are:

(i) The mechanism and engineering applied research of highly-concentrated organic wastewater, sludge and bio effective anaerobic digestion;

(ii) Principle and applied research of new wastewater treatment process;

(iii) Research of urban wastewater advanced treatment technology;

(iv) Research of wastewater networks operation management and maintenance;

(v) Research urban and rural diffused pollution control and management; and

(vi) Research of assessment on wastewater pollution prevention technology and research of management mechanism on pollution prevention technology, and etc.

Major ongoing research projects of Professor Zuo are as follows:

(i) State 863 Plan of "Research of highly-utilized technology and equipment of biowaste anaerobic digestion outcome (生物質垃圾厭氧消化產物高值利用技術、裝備研發)", 2008–2010

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

(ii) State 863 Plan of "Key treatments, equipment research and demonstration of highsolids anaerobic digestion (高固體厭氧消化關鍵工藝、裝備研發與工程示範)", 2008–2010

(iii) State 863 Plan of "New filtering equipments for wastewater advanced treatment research and application (污水深度處理新型過濾設備的研製與應用)", 2009–2012

(iv) State 863 Plan of "High-rate anaerobic digestion technology study and demonstration for wastewater sludge (城市污泥分級分相厭氧消化組合技術研發及工程示範)", 2009–2012

(v) National Technology Support Project, "Research and demonstration of scaled biogas engineering mechatronics equipment and control technology (規模化沼氣工程機電一體化裝備及控制技術研究與工程示範)", 2008–2010

(vi) National Technology Support Project, "Research and demonstration of new treatment technology of solid biogas fermentation (固體物料兩相沼氣發酵新工藝技術研究與工程示範)", 2008–2010

(vii) National Science and Technology Major Project, "Technology and demonstration of rapid urbanization new-zone water environment comprehensive protection (快速城市化新區水環境綜合保護技術與示範)", 2008–2010

(viii) National Science and Technology Major Project, "Research and technology city cluster in the area around the Taihu Luke environment comprehensive management technology (環太湖城市群水環境綜合管理技術集成研究與綜合示範)", 2008–2010

(ix) National Science and Technology Major Project, "Pharmaceutical industry water pollution protection technology assessment and selection (製藥行業水污染防治技術評估與篩選)", 2009–2011

(x) National Science and Technology Major Project, "Indicative mechanism study of pharmaceutical industry water pollution protection technology assessment (製藥行業水污染防治技術評估指標體系研究)", 2009–2011

Technology awards of Professor Zuo include:

(i) Second Class Prize for Beijing Science and Technology Progress, Development of UASB reaction equipment and its auxiliary products (反應器設備化及其配套產品開發), 2001

(ii) Second Class Prize of Environmental Protection Science Technology of State Environmental Protection Administration (國家環境保護總局環境保護科學技術獎二等獎), Research and application of effective anaerobic reactor, 2006

(iii) Third Class Prize of Environmental Protection Science Technology of State Environmental Protection Administration (國家環境保護總局環境保護科學技術獎三等獎), Research & development of effective unit treatment equipment (高效單元處理設備的研製和開發), 2003

(iv) Teaching Achievement Special Prize of Tsinghua University (清華大學教學成果獎特等獎), Theory and practice of organic combination of water treatment engineering establishment (理論與實踐有機融合的水處理工程課程建設), 2010

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

(v) Second Class Prize of Science Research Outstanding Results Award (Science and Technology Advancement Award) of higher education of Ministry of Education (教育部高等學校科學研究優秀成果獎(科技進步獎)二等獎), research & application of sustainable wastewater treatment mainly by anaerobic technology (以厭氧技術為核心的可持續廢水處理系統研究與應用), 2010

Publications of Professor Zuo include:

(i) Theory and Practice of UASB Treatment (UASB 工藝的理論與工程實踐) by Wang Kaijun and Zuo Jiane, etc., China Environmental Science Press, Beijing, 2000

(ii) Theory and Practice of Wastewater Anaerobic Bio-treatment (廢水厭氧生物處理理論與技術) by Hu Jicui, Zhou Mengjin, Zui Jiane, etc., China Architecture & Building Press, Beijing, 2003

(iii) Jiane Zuo, Lili Gan, Water and Sanitation Services (Chapter 19), Earthscan, London, 2009

Other academic positions held by Professor Zuo include:

(i) Standing Member of The seventh Committee of China Biogas Society

(ii) Member of the International Water Association (IWA)

Save as disclosed above, each of the above Directors did not hold any other positions with the Company and/or any of its subsidiaries and did not hold any other directorships in any listed public companies in the last three years.

Save as disclosed above, none of the above Directors have any relationship with any other Directors, senior management, substantial shareholders (as defined in the Rules (the "Listing Rules") Governing the Listing of Securities on the Stock Exchange) or controlling shareholder (as defined in the Listing Rules) of the Company.

Company Secretary

Li Wang Hing, Nelson, is the Company Secretary of the Company. He is also the finance & administration manager and human resources manager of the Company. Mr. Li holds a master degree of business administration from the University of Leicester in U.K. and a master degree of professional accounting from the Hong Kong Polytechnic University. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and is also a qualified Chartered Secretary designated as fellow member of both The Institute of Chartered Secretaries and Administrators, United Kingdom and The Hong Kong Institute of Chartered Secretaries. In 1999–2000, he was the President of the Hong Kong Polytechnic University Postgraduate Association. At present, he is the Honorary Auditor of Hong Kong Seamen's Union and the Council Member of Shipping Employees Union.

* the unofficial English translation or translation for identification purpose only

CORPORATE GOVERNANCE REPORT

The Board is pleased to present this corporate governance report in the Group's annual report for the year ended 31 December 2013.

The manner in which the principles and code provisions in the Corporate Governance Code ("CG Code") contained in Appendix 14 of the Listing Rules are applied and implemented is explained as follows:

Corporate Governance Practices

The Group is committed to achieving high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability.

The Company recognizes the importance of good corporate governance to the Company's healthy growth and has devoted considerable efforts to identifying and formulating corporate governance practices appropriate to the Company's needs.

The Company's corporate governance practices are based on the principles, code provisions and certain recommended best practices as set out in the corporate governance code (the "CG Code"), Appendix 14 to the rules governing the listing of securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Throughout the twelve months ended 31 December 2013, the Company has applied the principles and complied with the code provisions set out in the CG Code.

The Company has also put in place certain recommended best practices as set out in the CG Code.

The Company will continue to enhance its corporate governance practices appropriate to the conduct and growth of its business and to review its corporate governance practices periodically to ensure these continue to meet the requirements of the CG Code and align with the latest developments.

Non-Compliance With The Listing Rules

Non-Compliance With Rule 13.49(1) and Rule 13.46(2) of The Listing Rules

Pursuant to Rule 13.49(1) of the Listing Rules, the Company is required to publish its preliminary annual results on a date not later than three months after the ended 31 December 2013 (i.e. 31 March 2014).

Pursuant to Rule 13.46(2) of the Listing Rules, the Company is required to dispatch to every shareholder of the Company and other holders of its listed securities its annual report not more than four months after the year ended 31 December 2013 (i.e. 30 April 2014).

However, due to the delay in publication of the Annual Report 2012 and subsequent delay in the publication of the Interim Results Announcement and the delay in publication of the Interim Report 2013, the publication of the final results of the Company for the year ended 31 December 2013 and the despatch of Annual Report 2013 is inevitably affected and therefore delayed. The Board acknowledges that the delay in the publication of the final results of the Company for the year ended 31 December 2013 and the despatch of this annual report constitutes non-compliance with Rule 13.49(1) and Rule 13.46(2).

CORPORATE GOVERNANCE REPORT

The Board

Responsibilities

The management and control of the business of the Company are vested in its Board. It is the duty of the Board to establish policies, strategies and plans, and to provide leadership in the attainment of the objective of creating value to shareholders.

The positions of the Chairman and the Chief Executive Officer are held by separate persons. The Chairman is responsible for the management of the Board and the formulation of strategies and policies of the Company. The Chief Executive Officer is responsible for the management of the business and overall operations. The senior management was delegated the authority and responsibilities for the day-to-day management and operations of the Group. In addition, the Board has also established Board committees and has delegated to these Board committees various responsibilities set out in their respective terms of reference.

The Company has arranged for appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities.

Board Composition

The Company has adopted the recommended best practice under the CG Code. The Board has a balanced composition of executive and non-executive Directors to ensure independent viewpoints in all discussions. The Board currently comprises ten Directors, including four executive Directors, two non-executive Directors and four independent non-executive Directors.

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

Executive Directors:

Xu Zhong Ping *(Chairman)*
Pan Yutang *(appointed as the Chief Executive Officer on 21 November 2013)*
Zhang Fang Hong *(resigned as the Chief Executive Officer on 21 November 2013)*
Song Xuan *(retired on 29 May 2013)*
Xu Xiao Yang

Non-Executive Directors:

Ge Ze Min
Ma Tianfu

Independent Non-Executive Directors:

Wong Kam Wah *(Chairman of Audit Committee and Remuneration Committee, Member of Nomination Committee)*
Xin Luo Lin *(Chairman of Nomination Committee, Member of Audit Committee and Remuneration Committee)*
Zhu Nan Wen *(Member of Audit Committee, Remuneration Committee and Nomination Committee)*
Zuo Jiane *(Member of Audit Committee, Remuneration Committee and Nomination Committee)*

The list of Directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time. The independent non-executive Directors are expressly identified in all corporate communications pursuant to the CG Code.

Members of the Board are unrelated to one another.

During the year ended 31 December 2013, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received written annual confirmation from each independent non-executive Director of his independence pursuant to the requirements of the Listing Rules. On this basis, the Company considers all independent non-executive Directors to be independent in accordance with the independence guidelines set out in the Listing Rules. As at the date of this annual report, none of them had served the Company for more than 9 years.

The executive Directors, with their intimate knowledge of the business, take on the primary responsibility for the leadership for the Company while the non-executive Director and independent non-executive Directors bring a wide range of business and financial expertise, experiences and independent judgment to the Board. Independent non-executive Directors are invited to serve on the Audit, Remuneration and Nomination Committees of the Company.

Appointment, Re-election and Removal of Directors

In accordance with article 108(A) of the Articles of Association of the Company, all Directors are subject to retirement by rotation at least once every three years. In accordance with article 111 and article 112 of the Articles of Association of the Company, any new Director appointed to fill a causal vacancy or as an addition to the Board shall submit himself for re-election by shareholders at the next general meeting (in the case of filling a casual vacancy) or the next annual general meeting (in the case of an addition to the Board).

Code provision A.4.1 of the CG Code stipulates that non-executive Directors should be appointed for a specific term, subject to re-election.

There is no service contract between the Company and Mr. Ge Ze Min and Mr. Ma Tianfu, the non-executive Directors, and Mr. Xin Luo Lin, Mr. Wong Kam Wah, Prof. Zhu Nan Wen and Prof. Zuo Jiane, the independent non-executive Directors. They were not appointed for any specific length of service with the Company.

Although the non-executive Directors and independent non-executive Directors do not have a specific term of appointment, all Directors are subject to retirement by rotation once every three years in accordance with the Company's Articles of Association.

The procedures and process of appointment, re-election and removal of Directors are laid down in the Company's Articles of Association. The Nomination Committee is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of Directors, monitoring the appointment and succession planning of Directors and assessing the independence of independent non-executive Directors.

Nomination Committee

Board Diversity Policy

Purpose

The Board has established a Nomination Committee with authority, responsibility, and specific duties, including but not limited to, recommend to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman of the Board and the chief executive of the Company.

This Policy aims to set out the approach to achieve diversity on the Board. With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development.

In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service.

All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

Measurable Objectives

Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. The Board's composition (including gender, ethnicity, age, length of service) will be disclosed in the Corporate Governance Report annually.

Monitoring and Reporting

The Nomination Committee will report annually, in the Corporate Governance Report, on the Board's composition under diversified perspectives, and monitor the implementation of this Policy.

Review of this Policy

The Nomination Committee will review this Policy, as appropriate, to ensure the effectiveness of this Policy. The Nomination Committee will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

Reporting Procedures

This Policy will be published on the Company's website for public information.

A summary of this Policy together with the measurable objectives set for implementing this Policy, and the progress made towards achieving those objectives will be disclosed in the annual Corporate Governance Report.

As at 31 December 2013, the Nomination Committee comprised four members, namely Mr. Xin Luo Lin (Chairman), Mr. Wong Kam Wah, Prof. Zhu Nan Wen and Prof. Zuo Jiane, all of them are independent non-executive Directors.

The principal duties of the Nomination Committee include:

(a) to review the structure, size and composition of the Board on a regular basis and make recommendations to the Board regarding any proposed changes;

(b) to develop and formulate relevant procedures for nomination and appointment of Directors;

(c) to identify individuals suitably qualified to become a Board member;

(d) to make recommendations to the Board on selection or appointment of individuals nominated for directorships and appointment or re-appointment of Directors and succession planning for Directors; and

(e) to assess the independence of the independent non-executive Directors.

The Nomination Committee carries out the process of selecting and recommending candidates for directorships by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of such individuals, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary.

The Nomination Committee recommended the re-appointment of the Directors standing for re-election at the annual general meeting of the Company to be held on 24 June 2014.

A circular containing detailed information of the Directors standing for re-election at the annual general meeting to be held on 24 June 2014 was sent to the shareholders on 22 May 2014.

Induction and Continuing Development for Directors

Each newly appointed Director should receive a comprehensive, formal and tailored induction on the first occasion of his appointment, so as to ensure that he has appropriate understanding of the business and operations of the Company and that he is fully aware of his responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

The Company may engage external legal and other professional advisers for providing professional briefing and training programmes to the Directors where circumstances arise. Continuing briefings and professional development to Directors will be arranged whenever necessary.

The Company Secretary reports from time to time the latest changes and development of the Listing Rules, corporate governance practices and other regulatory regime to the Directors with written materials, as well as providing appropriate professional knowledge and latest development of regulatory requirements related to director's duties and responsibilities to all Directors through emails and relevant websites.

During the year of 2013, materials covering the updates of the Listing Rules, especially concerning the corporate governance and internal control have been given for Directors' review and study.

CORPORATE GOVERNANCE REPORT

Company Secretary

The Company Secretary is an employee of the Company. The Company Secretary is responsible for facilitating the Board's processes and communications among Board members, with shareholders and with management. During the year, the Company Secretary had taken the necessary professional training.

Board Meetings

Board Practices and Conduct of Meetings

Annual meeting schedules and notice and draft agenda of each meeting are normally made available to Directors and committee members in advance.

Board papers together with all appropriate information is sent to all Directors/committee members well before each Board meeting or committee meeting to keep the Directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each Director also have separate and independent access to the senior management whenever necessary.

The senior management, Financial Controller or Company Secretary attended some regular Board meetings and when necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.

The Company Secretary/secretary of the committees is responsible to take and keep minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to Directors for comment within a reasonable time after each meeting and the final version is open for Directors' inspection.

The Company's Articles of Association contains provisions requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest. According to current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a Director, will be considered and dealt with by the Board at a duly convened Board meeting. Independent non-executive Directors who, and whose associates, have no material interest in the transaction should be present at the Board meeting.

Directors' Attendance Records

During the year ended 31 December 2013, two regular Board meetings were held for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

Code provision A.1.1 stipulates that regular Board meetings should be held at least four times a year at approximately quarterly intervals. There were twenty two Board meetings held during the year under review, one of which was regular meeting held for approving the final results for the period ended 31 December 2012. The other Board meetings were held as and when the business and operational needs arose.

The attendance records of each Director at the meetings of shareholders, the Board, Audit Committee, Remuneration Committee and Nomination Committee during the year ended 31 December 2013 are set out below:

	Attendance/Number of Meetings				
Name of Directors	**General Meeting**	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**
Executive Directors:					
Xu Zhong Ping	1/1	18/22	—	—	—
Zhang Fang Hong	1/1	21/22	—	—	—
Pan Yutang	0/1	20/22	—	—	—
Song Xuan *(retired on 29 May 2013)*	0/1	9/22	—	—	—
Xu Xiao Yang	1/1	15/22	—	—	—
Non-Executive Directors:					
Ge Ze Min	0/1	18/22	—	—	—
Ma Tianfu	0/1	15/22	—	—	—
Independent Non-Executive Directors:					
Wong Kam Wah	1/1	22/22	4/4	—	1/1
Xin Luo Lin	0/1	6/22	3/4	—	1/1
Zhu Nan Wen	0/1	16/22	4/4	—	1/1
Zuo Jiane	0/1	12/22	3/4	—	0/1

Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its code of conduct regarding Directors' securities transactions.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2013.

The Company has also established written guidelines of no less exacting terms than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of unpublished inside information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

Delegation by the Board

The Board takes responsibility for all major matters of the Company including the setting of objectives and overall strategies, the approval and monitoring of all policy matters, internal control and risk management systems, material transactions (in particular those may involve conflict of interests), appointment of Directors and other significant financial and operational matters.

All Directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed. Each Director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon obtaining approval from the Board.

The Board delegates day-to-day management, administration and operation of the Company to the senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the senior management. The Board has the full support of the senior management to discharge its responsibilities.

The Board has established 3 committees, namely the Audit Committee, Remuneration Committee and Nomination Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference which are posted on the Company's website (www.cethl.com) and the website of the Stock Exchange of Hong Kong Limited (www.HKEX.com.hk) and are available to shareholders upon request.

Remuneration of Directors and Senior Management

The Company has established a formal and transparent procedure for formulating policies on remuneration and senior management of the Group. Details of the remuneration of each of the Directors for the year ended 31 December 2013 are set out in note 10 to the financial statements.

Remuneration Committee

As at 31 December 2013, the Remuneration Committee comprised four members, namely Mr. Wong Kam Wah (Chairman), Mr. Xin Luo Lin, Prof. Zhu Nan Wen and Prof. Zuo Jiane, all of them are independent non-executive Directors. The primary objectives of the Remuneration Committee include:

(a) to make recommendations on the establishment of procedures for developing remuneration policy and structure of the executive Directors and the senior management, such policy shall ensure that no Director or any of his associates will participate in deciding his own remuneration;

(b) to make recommendations on the remuneration packages of the executive Directors and the senior management;

(c) to review and approve the remuneration packages of the executive Directors and the senior management by reference to the performance of the individual and the Company as well as market practice and conditions; and

(d) to review and approve the compensation arrangements for the executive Directors and the senior management.

The human resources department is responsible for collection and administration of the human resources data and making recommendations to the Remuneration Committee for consideration. The Remuneration Committee shall consult the Chairman of the Company about these recommendations on remuneration policy and structure and the remuneration packages.

The remuneration of the Directors has been determined with reference to their respective qualification, experience, duties and responsibilities in the Company as well as the Group's results and performance for the financial year concerned. The Remuneration Committee has reviewed the remuneration policy and structure of the Company, and the remuneration packages of the executive Directors and the senior management for the year under review.

Accountability and Audit

Directors' Responsibilities for Financial Reporting in Respect of Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2013.

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 requirements.

The senior management provides such explanation and information to the Board so as to enable the Board to make an informed assessment of the financial information and position of the Company put to the Board for approval.

Internal Controls

The Board is responsible for maintaining an adequate internal control system to safeguard shareholder investments and the assets of the Company and with the support of the Audit Committee, reviewing the effectiveness of such system on an annual basis.

The internal control system of the Group is designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks and to safeguard assets of the Group. The senior management shall review and evaluate the control process and monitor any risk factors on a regular basis and report to the Audit Committee on any findings and measures to address the variances and identified risks.

The Board has conducted and was satisfied with the result of a review of the effectiveness of the system of internal control of the Group.

Audit Committee

As at 31 December 2013, the Audit Committee comprised four members, namely Mr. Wong Kam Wah (Chairman), Mr. Xin Luo Lin, Prof. Zhu Nan Wen and Prof. Zuo Jiane, all of them are independent non-executive Directors (including one independent non-executive Director who possesses the appropriate professional qualifications or accounting or related financial management expertise). None of the members of the Audit Committee is a former partner of the Company's existing external auditor.

The main duties of the Audit Committee include the following:

(a) to review the financial statements and reports and consider any significant or unusual items raised by staff responsible for the accounting and financial reporting function or external auditor before submission to the Board;

(b) to review the relationship with the external auditor by reference to the work performed by the auditor, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditor;

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(c) to review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures; and

(d) to monitor the corporate governance of the Group including compliance with statutory and Listing Rules requirement.

During the year under review, the Audit Committee reviewed the Group's annual results and annual report for the year ended 31 December 2013 and the interim results for the period ended 30 June 2013, the financial reporting and compliance procedures, risk management review and processes and the re-appointment of the external auditor.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

There is no different view taken by the Audit Committee regarding the selection, appointment and resignation of the external auditor.

The Audit Committee held four meetings during the year ended 31 December 2013 and the attendance records are set out under "Directors' Attendance Records" on page 23.

External Auditor and Auditor's Remuneration

The statement of the external auditor of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" on pages 37 to 38.

During the year ended 31 December 2013, the remuneration paid to the Company's auditor, Crowe Horwath (HK) CPA Limited, is set out below:

Category of services	Fee paid/ payable
Audit service	HK$1,300,000
Non audit service	HK$66,000
Total	HK$1,366,000

Communications with Shareholders and Investors

The Company believes that effective communication with shareholders is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. The Group also recognizes the importance of transparency and timely disclosure of corporate information which enables shareholders and investors to make the best investment decision.

The general meetings of the Company provide an important channel for communication between the Board and the shareholders. The Chairman of the Board as well as chairmen of the Audit Committee, Remuneration Committee and Nomination Committee or, in their absence, other members of the respective committees and, where applicable, the independent Board committee, normally attend the annual general meeting and other relevant shareholders' meetings to answer questions at the shareholders' meetings.

CORPORATE GOVERNANCE REPORT

The Company continues to enhance communications and relationships with its investors. Designated senior management maintains regular dialogue with institutional investors and analysts to keep them abreast of the Company's developments. Enquiries from investors are dealt with in an informative and timely manner. As a channel to promote effective communication, the Company maintains a website at www.cethl.com, where up-to-date information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are available for public access. Shareholders and investors may write directly to the Company at its principal place of business in Hong Kong or via facsimile at (852) 2511-1878 for any inquiries.

Shareholders' Rights

To safeguard the shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual Directors.

All resolutions put forward at a shareholders' meeting will be taken by poll pursuant to the Listing Rules and the poll results will be posted on the website of the Company and Hong Kong Exchanges and Clearing Limited after the shareholders' meeting.

Procedures For Shareholders To Propose/Move A Resolution At General Meetings

There are no provisions allowing shareholders of the Company to make proposals or move resolutions at a general meeting under the Company's constitution or the laws of the Cayman Islands. Shareholders who wish to make proposals or move a resolution may, however, convene an extraordinary general meeting by the following procedures below.

Procedures for Shareholders to Propose Convening Extraordinary General meetings

Extraordinary General Meetings 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 Extraordinary General Meeting 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 21 days of such deposit the Directors fail to proceed to convene such meeting, the requisitionist(s) himself (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 Shareholders to Propose a Person for Election as a Director

Pursuant to Article 113 of the Articles of Association of the Company, a notice in writing of the intention to propose a person for election as a Director and a notice in writing by that person of his willingness to be elected shall be lodged at the Head Office or at the Registration Office of the Company.

These notices shall be lodged during a period commencing no earlier than the day after the despatch of the notice of the general meeting appointed for such election and ending no later than seven days prior to the date of such meeting, provided that such period shall be at least seven days subject to and to such extent permitted by and in accordance with the laws and the Listing Rules.

The Company can also accept the said notice earlier than the day after the despatch of the notice of the meeting appointed for such election of Director(s).

REPORT OF THE DIRECTORS

The Directors submit herewith their annual report together with the audited financial statements for the year ended 31 December 2013.

Principal Place of Business

The Company is a company incorporated in the Cayman Islands and has its principal place of business at Unit 1003–5, 10th Floor, Shui On Centre, 6–8 Harbour Road, Wanchai, Hong Kong.

Principal Activities

The principal activity of the Company is investment holding. The Group's principal business are trading of vehicles, machinery, equipment; environmental protection technology, equipment system integration, cities and towns wastewater treatment, project technical service and licensing of related environmental protection technical know-how. The details activities and other particulars of the subsidiaries are set out in note 21 to the financial statements.

The analysis of the principal activities and geographical locations of the operations of the Group during the financial year are set out in note 15 to the financial statements.

Major Customers and Suppliers

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group's total	
	Sales	**Purchases**
The largest customer	46.27%	
Five largest customers in aggregate	67.88%	
The largest supplier		32.40%
Five largest suppliers in aggregate		38.89%

At no time during the year have the Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

Financial Statements

The loss of the Group for the year ended 31 December 2013 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 39 to 134.

Transfer to Reserves

Loss attributable to owners, before dividends, of HK$64,568,000 (31 December 2013: loss of HK$64,677,000) have been transferred to reserves. Other movements in reserves are set out in note 36 to the financial statements.

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

Property, Plant and Equipment

Details of movements in property, plant and equipment of the Group during the year are set out in note 16 to the financial statements.

Directors

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

Executive Directors

Xu Zhong Ping *(Chairman)*
Pan Yutang *(appointed as the Chief Executive Officer on 21 November 2013)*
Zhang Fang Hong *(resigned as the Chief Executive Officer on 21 November 2013)*
Song Xuan *(retired on 29 May 2013)*
Xu Xiao Yang

Non-Executive Directors

Ge Ze Min
Ma Tianfu

Independent Non-Executive Directors

Wong Kam Wah
Xin Luo Lin
Zhu Nan Wen
Zuo Jiane

Mr. Ge Ze Min will retire from the office as a non-executive Director and Mr. Wong Kam Wah, Mr. Xin Luo Lin and Prof. Zuo Jiane will retire from the office as independent non-executive Directors at the forthcoming annual general meeting of the Company in accordance with Article 111 of the Articles of Association of the Company. All retiring Directors, being eligible, will offer themselves for re-election.

All Directors (including non-executive and independent non-executive Directors) of the Company are subject to the general provisions in respect of the retirement and rotation of Directors at the annual general meeting pursuant to the Company's Articles of Association.

Directors' Service Contracts

No Director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

Directors' and Chief Executive's Interests in Shares and Underlying Shares

The Directors and chief executive who held office at 31 December 2013 had the following interests in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) at that date as recorded in the register of Directors' and chief executives' interests required to be kept under section 352 of the SFO, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in the Listing Rules (the "Model Code"), to be notified to the Company and the Stock Exchange were as follows:

Long position

(i) Interests in issued shares of the Company

Name of Director	Capacity	No. of ordinary shares interested	% of the Company's issued share capital
Xu Zhong Ping	Interest held by a controlled corporation *(note)*	1,200,000,000	47.99%
	Beneficial owner	64,098,431	2.56%
		1,264,098,431	50.55%
Xu Xiao Yang	Beneficial owner	20,000,000	0.80%

Note:

These 1,200,000,000 shares were held under the name of Gentle International Holdings Limited ("Gentle"). Mr. Xu Zhong Ping owns 60% of the issued share capital of Gentle. Mr. Xu was therefore deemed to be interested in the said 1,200,000,000 shares held by Gentle under Part XV of the SFO.

(ii) Interests in underlying shares of the Company

Name of Director	Capacity	No. of share option held	% of the Company's issued share capital
Xu Zhong Ping	Beneficial owner	2,200,000	0.09%
Zhang Fang Hong	Beneficial owner	22,000,000	0.88%
Pan Yutang	Beneficial owner	3,000,000	0.12%
Xu Xiao Yang	Beneficial owner	3,000,000	0.12%
Ma Tianfu	Beneficial owner	3,000,000	0.12%

Apart from the foregoing, as at 31 December 2013, none of the Directors, the chief executive or any of their spouses or children under eighteen years of age has interests in the shares, underlying shares and debentures of the Company, or any of its associated corporations, as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Share Options

2002 Share Option Scheme

The Company's 2002 Share Option Scheme was adopted on 28 March 2002 and was terminated by a resolution passed by shareholders on 10 September 2010.

2010 Share Option Scheme

The Company has, in accordance with Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), adopted a new share option scheme (the "2010 Share Option Scheme"), as approved by the shareholders of the Company at the extraordinary general meeting held on 10 September 2010. The Directors are given a general mandate to invite eligible participants to take up options at the subscription price as prescribed under the 2010 Share Option Scheme to subscribe for shares of the Company. The purpose of the share option scheme is to enable the Group to grant options to the eligible participants including employees, executive and non-executive Directors, suppliers and customers and shareholders of any members of the Group and any persons or entities that provided research, development or other technical support to the Group or any other group or classes of participants determined by the Directors as incentive or rewards for their contribution to the Group. The share option scheme has become valid and effective for a period of ten years ending on 9 September 2020.

The exercise price of options is the highest of the nominal value of the shares, the closing price of the shares on the Stock Exchange on the date of offer and the average closing price of the shares on the Stock Exchange for the five business days immediately preceding the date of offer. The options vest in four equal instalments with the first installment vesting from the date of grant. The second, third and fourth instalments vest from one, two and three years after the date of grant respectively. The options are exercisable after the vesting date but within a period of five years from the date of grant. Each option gives the holder the right to subscribe for one ordinary share in the Company.

The total number of securities available for issue under the share option scheme as at 31 December 2013 was 64,500,000 shares which represents 2.58% of the issued share capital of the Company as at 31 December 2013. The number of securities issued and to be issued upon exercise of the options granted to each participant in any 12-month period is limited to 1% of the Company's ordinary shares in issue.

Offer of an option shall have been accepted when the duplicate letter comprising acceptance of the option duly signed by the grantee together with a remittance of HK$1 is received within such time as may be specified in the offer, which shall not be later than 21 days from the date of offer. The share option scheme will expire on 9 September 2020.

REPORT OF THE DIRECTORS

Details of the share options granted under the 2010 Share Option Scheme and a summary of the movements during the year are as follows:

Name	Date of grant	Exercisable period	Exercise price	Balance at 1.1.2013	Number of share options Granted during the period	Exercised during the period	Lapsed during the period	Balance at 31.12.2013
			HK$					
Directors								
Xu Zhong Ping	17 September 2010	17 September 2010 to 16 September 2020	0.46	2,200,000	—	—	—	2,200,000
Zhang Fang Hong	17 September 2010	17 September 2010 to 16 September 2020	0.46	22,000,000	—	—	—	22,000,000
Pan Yutang	17 September 2010	17 September 2010 to 16 September 2020	0.46	3,000,000	—	—	—	3,000,000
Xu Xiao Yang	17 September 2010	17 September 2010 to 16 September 2020	0.46	3,000,000	—	—	—	3,000,000
Ma Tianfu	17 September 2010	17 September 2010 to 16 September 2020	0.46	3,000,000	—	—	—	3,000,000
Sub-total				33,200,000	—	—	—	33,200,000
Others								
Employees and other qualified participants	17 September 2010	17 September 2010 to 16 September 2020	0.46	31,300,000	—	—	—	31,300,000
Sub-total				31,300,000	—	—	—	31,300,000
Total				64,500,000	—	—	—	64,500,000

Information on the accounting policy for share options granted and the weighted average value per option is provided in note 2.25 and note 34 to the financial statements respectively.

Apart from the foregoing, at no time during the year was the Company, or any of its holding company, subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

Substantial Shareholders' Interests in Shares

As at 31 December 2013, the following persons, other than a Director or chief executive of the Company, had interest or short positions in the shares and underlying shares in the Company as recorded in the register required to be kept under section 336 of the SFO:

	Capacity	No. of ordinary shares of the Company interested	% of the Company's issued shares capital
Gentle International Holdings Limited	Beneficial owner	1,200,000,000	47.99
Eternity Venture Limited	Beneficial owner	264,976,000	10.60
Li Hanying	Interest of a controlled corporation *(Note 1)*	264,976,000	10.60
Chung Cheong Group Limited	Beneficial owner	102,304,000	4.09
Mo Huiqin	Interest of a controlled corporation *(Note 2)*	102,304,000	4.09

Note:

1. Li Hanying is the sole shareholder of Eternity Venture Limited and was therefore deemed to be interested in the said 264,976,000 shares held by Eternity Venture Limited under Part XV of the SFO.

2. Mo Huiqin is the sole shareholder of Chung Cheong Group Limited and was therefore deemed to be interested in the said 102,304,000 shares held by Chung Cheong Group Limited under Part XV of the SFO.

Save as disclosed above, as at 31 December 2013, so far as is known to the Directors, no person (other than the Directors whose interests are set out in the section headed "Directors' and Chief Executive's Interests in Shares and Underlying Shares" above) had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

Directors' Interests in Contracts

Save as disclosed in note 37 to the financial statements, no contract of significance to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a Director had a material interest, subsisted at the end of the year or at any time during the year ended 31 December 2013.

Directors Interests in Competing Business

None of the Directors or their respective associates has any interests in a business which competes or may compete with the business of the Group.

REPORT OF THE DIRECTORS

Share Capital

Details of the movements in share capital of the Company during the year are set out in note 35 to the financial statements.

Purchase, Sale or Redemption of Shares

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year ended 31 December 2013 (nine months ended 31 December 2012: Nil).

Pre-emptive Rights

There is no provision 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.

Bank Loans and Overdrafts

Particulars of bank loans and other borrowings of the Company and the Group as at 31 December 2013 are set out in note 31 to the financial statements.

Contingent Liabilities

As at 31 December 2013, the bank loans amounted to HK$93,980,000 and entrusted loan amounted to HK$63,500,000 were secured by corporate guarantees given by the Company.

Five Year 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 136 of the annual report.

Properties

Particulars of the major properties and property interest of the Group are shown on pages 135 of the annual report.

Retirement Schemes

As from 1 December 2000, the Group operates a mandatory provident fund scheme (the "MPF Scheme"), managed by an independent approved MPF trustee, under the requirements of the Mandatory Provident Fund Schemes Ordinance (Cap. 485, Laws of Hong Kong) for employees employed under the jurisdiction of the Employment Ordinance (Cap. 57, Laws of Hong Kong).

The MPF Scheme is a defined contribution retirement scheme. Under the MPF Scheme, the employer and its employees are each required to make contributions to the MPF Scheme at 5% of the employee's relevant income, subject to a cap of monthly relevant income of HK$25,000.

The employees in the Group's PRC subsidiaries are members of the state-managed retirement schemes. The PRC subsidiaries are required to contribute a specified percentage of their payroll to these schemes. The only obligation of the Group with respect to these retirement schemes is to make the specified contributions.

Confirmation of Independence

The Company 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.

Sufficiency of Public Float

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

Auditor

Following the resignation of CCIF CPA Limited on 3 February 2012, PricewaterhouseCoopers ("PWC") was appointed as the auditor of the Company to fill the casual vacancy.

PWC resigned as auditors of the Company with effect from 19 July 2013 and Crowe Horwath (HK) CPA Limited ("Crowe Horwath") was appointed as auditors of the Company on 7 August 2013 to fill the vacancy following the resignation of PwC and to hold office until the conclusion of the general meeting of the Company.

The financial statements of the Group for the year ended 31 December 2013 have been audited by Crowe Horwath who will retire and being eligible, offer themselves for re-appointment. A resolution for the appointment of Crowe Horwath as auditor of the Company is to be proposed at the forthcoming general meeting.

Save as disclosed above, there were no other changes in the Company's auditors in any of the preceding four years.

By order of the Board
Xu Zhong Ping
Chairman

Hong Kong, 12 May 2014

CORPORATE INFORMATION

Board of Directors

Executive Directors:

Mr. Xu Zhong Ping *(Chairman)*
Mr. Pan Yutang *(Chief Executive Officer)*
Mr. Zhang Fang Hong
Mr. Xu Xiao Yang

Non-executive Directors:

Mr. Ge Ze Min
Mr. Ma Tianfu

Independent Non-executive Directors:

Mr. Wong Kam Wah
Mr. Xin Luo Lin
Prof. Zhu Nan Wen
Prof. Zuo Jiane

Audit Committee

Mr. Wong Kam Wah *(Chairman)*
Mr. Xin Luo Lin
Prof. Zhu Nan Wen
Prof. Zuo Jiane

Remuneration Committee

Mr. Wong Kam Wah *(Chairman)*
Mr. Xin Luo Lin
Prof. Zhu Nan Wen
Prof. Zuo Jiane

Nomination Committee

Mr. Xin Luo Lin *(Chairman)*
Mr. Wong Kam Wah
Prof. Zhu Nan Wen
Prof. Zuo Jiane

Company Secretary

Mr. Li Wang Hing, Nelson

Auditor

Crowe Horwath (HK) CPA Limited
9/F Leighton Centre
77 Leighton Road
Causeway Bay, Hong Kong

Legal Advisers

Conyers Dill & Pearman

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 and Transfer Office

Tricor Standard Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

Registered Office

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

Head Office and Principal Place of Business

Unit 1003–5
10th Floor, Shui On Centre
6–8 Harbour Road
Wanchai
Hong Kong
Tel: (852) 2511 1870
Fax: (852) 2511 1878

Listing Information

The Stock Exchange of Hong Kong Limited
Stock Code: 646

PRINCIPAL BANKERS

DBS Bank (Hong Kong) Limited
Hang Seng Bank Limited

Company Website

www.cethl.com

INDEPENDENT AUDITOR'S REPORT

Crowe Horwath

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

9/F Leighton Centre,
77 Leighton Road,
Causeway Bay, Hong Kong

TO THE SHAREHOLDERS OF CHINA ENVIRONMENTAL TECHNOLOGY HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Environmental Technology Holdings Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 39 to 134, 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, 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 audit opinion.

INDEPENDENT AUDITOR'S REPORT

Opinion

In our opinion, 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 loss 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.

Emphasis of matters

We draw attention to note 2.1.1 to the consolidated financial statements which indicates that the Group incurred a loss attributable to owners of the Company of HK$64,568,000 and had net cash outflows from operating activities of HK$38,327,000 for the year ended 31 December 2013. As at 31 December 2013, the Group had net debts of HK$113,769,000 and capital commitments of HK$63,565,000. In addition, the Group had net current liabilities of HK$14,858,000 as at 31 December 2013. Notwithstanding the above, the consolidated financial statements have been prepared on a going concern basis, the validity of which depends on the ability of the Group and the Company to attain profitable and positive cash flows from operations and the financial support from banks and an indirect shareholder. These conditions, along with other matters as set forth in note 2.1.1 to the consolidated financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group's and the Company's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

Crowe Horwath (HK) CPA Limited
Certified Public Accountants
Hong Kong, 12 May 2014

Lam Cheung Shing
Practising Certificate Number P03552

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2013

	Note	Year ended 31 December 2013 HK$'000	Period from 1 April 2012 to 31 December 2012 HK$'000
CONTINUING OPERATIONS			
Turnover	5	56,311	51,031
Cost of sales		(44,883)	(50,290)
Gross profit		11,428	741
Other revenue	6	1,245	265
Other losses, net	7	(600)	(34,667)
Distribution costs		(4,693)	(2,846)
Administrative expenses		(58,083)	(41,258)
Loss from operations		(50,703)	(77,765)
Finance costs	8(a)	(13,866)	—
Share of loss of an associate		(1,396)	(779)
Loss before tax	8	(65,965)	(78,544)
Income tax credit	9	996	10,379
Loss for the year/period from continuing operations		(64,969)	(68,165)
DISCONTINUED OPERATIONS			
Profit for the period from discontinued operations	29(a)	—	2,880
Loss for the year/period		(64,969)	(65,285)
Loss attributable to:			
Owners of the Company			
— Loss from continuing operations		(64,568)	(67,557)
— Profit from discontinued operations		—	2,880
		(64,568)	(64,677)
Non-controlling interests			
— Loss from continuing operations		(401)	(608)
Loss for the year/period		(64,969)	(65,285)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2013

	Note	Year ended 31 December 2013	Period from 1 April 2012 to 31 December 2012
Loss per share			
From continuing operations	*14(a)*		
— Basic		**(HK2.58) cents**	(HK2.70) cents
— Diluted		**(HK2.58) cents**	(HK2.70) cents
From continuing and discontinued operations	*14(b)*		
— Basic		**(HK2.58) cents**	(HK2.59) cents
— Diluted		**(HK2.58) cents**	(HK2.59) cents

The notes on pages 49 to 134 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2013

	Note	Year ended 31 December 2013 HK$'000	Period from 1 April 2012 to 31 December 2012 HK$'000
Loss for the year/period		**(64,969)**	(65,285)
Other comprehensive income/(loss) for the year/period, net of tax			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of foreign operations		**2,928**	1,859
Realisation of exchange differences transferred to profit or loss upon disposal of subsidiaries	*29(d)*	**—**	(4,122)
		2,928	(2,263)
Item that will not be reclassified to profit or loss:			
Revaluation surplus on leasehold land and buildings, net of tax		**2,593**	—
Total other comprehensive income/(loss) for the year/period		**5,521**	(2,263)
Total comprehensive loss for the year/period		**(59,448)**	(67,548)
Attributable to:			
Owners of the Company		**(59,053)**	(66,944)
Non-controlling interests		**(395)**	(604)
		(59,448)	(67,548)

The notes on pages 49 to 134 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	Note	2013 HK$'000	2012 HK$'000
Non-current assets			
Property, plant and equipment	16	28,107	24,779
Investment properties	17	—	—
Operating concessions	18	236,908	224,613
Intangible assets	19	11,207	12,405
Goodwill	20	1,919	—
Interest in an associate	22	—	517
Interests in joint ventures	23	—	—
		278,141	262,314
Current assets			
Financial assets at fair value through profit or loss	25	440	1,258
Inventories	26	15,594	7,557
Trade and other receivables	27	21,767	25,439
Restricted and pledged bank deposits	28	1,182	386
Cash and cash equivalents	28	42,529	39,573
		81,512	74,213
Current liabilities			
Trade and other payables	30	56,291	46,719
Current income tax payable		709	691
Bank loans	31	39,370	24,304
		96,370	71,714
Net current (liabilities)/assets		(14,858)	2,499
Total assets less current liabilities		263,283	264,813

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	Note	2013 HK$'000	2012 HK$'000
Non-current liabilities			
Bank loans	*31*	**54,610**	62,000
Entrusted loan	*31*	**63,500**	—
Deferred tax liabilities	*33*	**20,224**	19,627
		138,334	81,627
Net assets		**124,949**	183,186
EQUITY			
Share capital	*35*	**62,508**	62,508
Reserves	*36(a)*	**62,638**	120,480
Equity attributable to owners of the Company		**125,146**	182,988
Non-controlling interests		**(197)**	198
Total equity		**124,949**	183,186

Approved and authorised for issue by the board of directors on 12 May 2014.

Xu Zhong Ping
Director

Pan Yutang
Director

The notes on pages 49 to 134 are an integral part of these consolidated financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	Note	2013 HK$'000	2012 HK$'000
Non-current assets			
Property, plant and equipment	16	313	541
Investments in and loans to subsidiaries	21	157,110	185,072
Interests in joint ventures	23	—	—
		157,423	185,613
Current assets			
Other receivables	27	1,160	1,171
Cash and cash equivalents	28	6,050	6,178
		7,210	7,349
Current liabilities			
Trade and other payables	30	3,163	5,130
Amounts due to subsidiaries	32	39,911	33,207
		43,074	38,337
Net current liabilities		(35,864)	(30,988)
Total assets less current liabilities		121,559	154,625
Net assets		121,559	154,625
EQUITY			
Equity attributable to owners of the Company			
Share capital	35	62,508	62,508
Reserves	36(b)	59,051	92,117
Total equity		121,559	154,625

Approved and authorised for issue by the board of directors on 12 May 2014.

Xu Zhong Ping	**Pan Yutang**
Director	*Director*

The notes on pages 49 to 134 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

		Attributable to owners of the Company										
	Note	Share capital HK$'000	Share premium HK$'000	Share option reserve HK$'000	Contri-buted surplus HK$'000	Exchange reserve HK$'000	Reval-uation reserve-land and buildings HK$'000	Other reserves HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 April 2012		62,508	162,813	14,908	(180)	15,512	20,593	12,701	(41,312)	247,543	802	248,345
Comprehensive income												
Loss for the period		—	—	—	—	—	—	—	(64,677)	(64,677)	(608)	(65,285)
Other comprehensive income/(loss):												
Exchange difference on translation of financial statements of foreign operations		—	—	—	—	1,855	—	—	—	1,855	4	1,859
Realisation of exchange differences transferred to profit or loss upon disposal of subsidiaries	*29(d)*	—	—	—	—	(4,122)	—	—	—	(4,122)	—	(4,122)
Total other comprehensive income/(loss), net of nil tax		—	—	—	—	(2,267)	—	—	—	(2,267)	4	(2,263)
Total comprehensive income/(loss)		—	—	—	—	(2,267)	—	—	(64,677)	(66,944)	(604)	(67,548)
Reversal of other reserves upon disposal of subsidiaries		—	—	—	—	—	(13,674)	(3,355)	17,029	—	—	—
Equity-settled share-based payment transactions		—	—	2,389	—	—	—	—	—	2,389	—	2,389
Transfer to other reserves		—	—	—	—	(8)	—	1,002	(994)	—	—	—
		—	—	2,389	—	(8)	(13,674)	(2,353)	16,035	2,389	—	2,389
At 31 December 2012		62,508	162,813	17,297	(180)	13,237	6,919	10,348	(89,954)	182,988	198	183,186

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

	Attributable to owners of the Company										
	Share capital HK$'000	Share premium HK$'000	Share option reserve HK$'000	Contri-buted surplus HK$'000	Exchange reserve HK$'000	Reval-uation reserve-land and buildings HK$'000	Other reserves HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2013	62,508	162,813	17,297	(180)	13,237	6,919	10,348	(89,954)	182,988	198	183,186
Comprehensive income											
Loss for the year	–	–	–	–	–	–	–	(64,568)	(64,568)	(401)	(64,969)
Other comprehensive income:											
Exchange difference on translation of financial statements of foreign operations	–	–	–	–	2,922	–	–	–	2,922	6	2,928
Revaluation surplus, net of tax	–	–	–	–	–	2,593	–	–	2,593	–	2,593
Total other comprehensive income, net of tax	–	–	–	–	2,922	2,593	–	–	5,515	6	5,521
Total comprehensive income/ (loss)	–	–	–	–	2,922	2,593	–	(64,568)	(59,053)	(395)	(59,448)
Equity-settled share-based payment transactions	–	–	1,211	–	–	–	–	–	1,211	–	1,211
Transfer upon disposal of leasehold land and buildings	–	–	–	–	–	(4,985)	–	4,985	–	–	–
	–	–	1,211	–	–	(4,985)	–	4,985	1,211	–	1,211
At 31 December 2013	62,508	162,813	18,508	(180)	16,159	4,527	10,348	(149,537)	125,146	(197)	124,949

Note:

Revaluation reserve has been set up and is dealt with in accordance with the accounting policies adopted for leasehold land and buildings in note 2.6. The revaluation reserve is not distributable to shareholders.

The notes on pages 49 to 134 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	Note	Year ended 31 December 2013 HK$'000	Period from 1 April 2012 to 31 December 2012 HK$'000
Cash flows from operating activities			
Operating activities			
Loss before tax:			
From continuing operations		(65,965)	(78,544)
From discontinued operations		—	2,898
Adjustments for:			
Depreciation	*16*	2,737	2,002
Amortisation of interest in leasehold land held for own use under operating leases		—	2
Amortisation of operating concessions	*18*	8,836	11,828
Amortisation of intangible assets	*19*	2,084	6,188
Impairment loss on amount due from a joint venture	*27(b)*	3,401	1,002
Impairment loss on trade receivables	*27(a)*	229	—
Impairment loss on other receivables	*8(c)*	—	1,033
Impairment loss on intangible assets	*19*	—	36,494
Impairment loss on goodwill	*20*	758	—
Write-down of obsolete inventories	*26*	1,035	1,221
Interest expenses	*8(a) and 29(b)*	13,866	35
Interest income	*6 and 29(b)*	(353)	(135)
Gain on disposal of subsidiaries	*29(d)*	—	(4,472)
Net loss/(gain) on disposal of property, plant and equipment	*7 and 29(b)*	1,791	(2,019)
Net (gain)/loss on sale of financial assets at fair value through profit or loss	*7*	(2,270)	532
Net unrealised gain on financial assets at fair value through profit or loss	*7*	—	(347)
Fair value of contribution margin from grantor	*18*	(1,623)	(1,558)
Equity-settled share-based payments	*8(b)*	1,211	2,389
Share of loss from an associate	*22*	1,396	779
Net exchange gain		(10)	(204)
		(32,877)	(20,876)
Changes in working capital			
— (increase)/decrease in inventories		(12,267)	4,793
— decrease in trade and other receivables		4,410	1,052
— increase/(decrease) in trade and other payables		2,407	(14,095)
Cash used in operations		(38,327)	(29,126)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	Note	Year ended 31 December 2013 HK$'000	Period from 1 April 2012 to 31 December 2012 HK$'000
Income tax paid			
The People's Republic of China ("PRC")		–	(94)
		–	(94)
Net cash used in operating activities		(38,327)	(29,220)
Investing activities			
Payment for purchase of property, plant and equipment	16	(6,345)	(2,662)
Proceeds from disposal of property, plant and equipment		5,886	5,045
Payment for the construction cost of operating concessions		(8,530)	(7,077)
Net cash outflow for acquisition of a subsidiary	39	(3,048)	—
Net cash outflow for disposal of subsidiaries	29(d)	–	(3,539)
Proceeds from sale of trading securities		3,088	1,385
Payment for investment in an associate		(885)	(1,302)
Interest income received		353	135
Increase in restricted and pledged bank deposits		(774)	(386)
Advance to an associate		–	(372)
Advance to a joint venture		(3,401)	(682)
Net cash used in investing activities		(13,656)	(9,455)
Financing activities			
Proceeds from new bank loans		30,000	36,900
Proceeds from an entrusted loan		62,500	—
Repayment of bank loans		(24,500)	(12,792)
Interest paid		(13,866)	(6,382)
Net cash generated from financing activities		54,134	17,726
Net increase/(decrease) in cash and cash equivalents		2,151	(20,949)
Cash and cash equivalents at beginning of year/period		39,573	60,255
Effect of foreign exchange rate changes		805	267
Cash and cash equivalents at end of year/period	28	42,529	39,573

The consolidated statement of cash flows included both continuing and discontinued operations, details of which are set out in note 29.

The notes on pages 49 to 134 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 General information

China Environmental Technology Holdings Limited (the "Company") is a limited liability company incorporated in the Cayman Islands on 31 August 2001 and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited. The registered office and principal place of business of the Company are located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and Unit 1003–5, 10th Floor, Shui On Centre, 6–8 Harbour Road, Wanchai, Hong Kong respectively.

The principal activity of the Company is investment holding. The principal activities of the principal subsidiaries are described in note 21. During the period ended 31 December 2012, the Group completed the disposal of the trading business for motor vehicles, machineries and parts. Further details are included in note 29 to the consolidated financial statements.

These financial statements are presented in Hong Kong dollars ("HK$") (note 2.5(a)) rounded to the nearest thousand except for per share data, unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 12 May 2014.

2 Summary of significant accounting policies

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the year/period presented, unless otherwise stated.

2.1 Basis of preparation

During the previous financial year, the financial year end date of the Company and its subsidiaries (the "Group") has been changed from 31 March to 31 December to align with the financial year end dates of the Company's subsidiaries that are established in the PRC, which are required under relevant laws to close their accounts with the financial year end on 31 December. Accordingly, the current accounting period covers a period of twelve months from 1 January 2013 to 31 December 2013, while the corresponding comparative amounts shown for the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and related notes cover a period of nine months from 1 April 2012 to 31 December 2012 and are therefore not entirely comparable with those of the current year.

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the accounting of leasehold land and buildings, financial assets at fair value through profit or loss and investment properties.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates and assumptions. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note to the consolidated financial statement. 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.

The consolidated financial statements for the year ended 31 December 2013 comprise the Company and its subsidiaries and the Group's interest in an associate and interests in joint ventures.

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

2.1.1 Going concern

During the year ended 31 December 2013, the Group incurred a loss attributable to owners of the Company of HK$64,568,000 and had net cash outflows from operating activities of HK$38,327,000. As at 31 December 2013, the Group had net debts of HK$113,769,000 and capital commitments of HK$63,565,000. In addition, the Group had net current liabilities of HK$14,858,000 as at 31 December 2013. In preparing these consolidated financial statements, the directors of the Company have given careful consideration to the impact of the current and anticipated future liquidity of the Group and the Company and the ability of the Group and the Company to attain profitable and positive cash flows from operations in the immediate and longer term, the financial support from banks and an indirect shareholder. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's and the Company's ability to continue as a going concern as a result of which it may be unable to realise its assets and discharge its liabilities in the normal course of business. Notwithstanding the above, the directors considered that it is appropriate to adopt the going concern basis of accounting in preparing these consolidated financial statements.

In order to improve the Group's financial position, immediate liquidity and cash flows and otherwise to sustain the Group as a going concern, the Group has taken the following measures:

a) On 11 February 2014, Fanhe (Hulu Island) Water Investment Company Limited, a wholly-owned subsidiary, entered into an agreement to borrow a bank loan of RMB11,000,000 (equivalent to HK$13,970,000) from a PRC bank, for a period of three years from 11 February 2014 to 10 February 2017. The loan bears interest at 9.84% per annum and is secured by the income stream from the Group's operating concessions. The loan was drawn down on 11 February 2014.

b) On 28 February 2014, the Company entered into an unconditional financial support agreement for HK$150,000,000 with an indirect shareholder of the Company for a period of two years from 28 February 2014 (the "Period"). During the Period, the Company is entitled to borrow one or more loans from this indirect shareholder, at anytime and in any amount which in aggregate should not exceed HK$150,000,000. The loans are bearing interest at 3% per annum, unsecured and repayable in 2 years from the date of each draw-down.

c) the directors of the Company have been taking various cost control measures to tighten the costs of operations and various general and administrative expenses.

Based on the cash flow projections of the Group and having taken into account the available financial resources of the Group and the above measures, the directors of the Company consider that the Group will have sufficient working capital to finance its operations and meet its financial obligations as and when they fall due in the foreseeable future, and accordingly, are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

2.1.1 Going concern (Continued)

Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to classify non-current assets and liabilities as current assets and liabilities respectively. The effects of these potential adjustments have not been reflected in these consolidated financial statements.

2.2 Subsidiaries and non-controlling interests

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, 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. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

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. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

2.2 Subsidiaries and non-controlling interests (Continued)

2.2.1 Consolidation (Continued)

(a) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or a liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of profit or loss.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions — that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between the fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

2 Summary of significant accounting policies (Continued)

2.2 Subsidiaries and non-controlling interests (Continued)

2.2.1 Consolidation (Continued)

(c) *Disposal of subsidiaries*

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, a joint venture or a financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors.

2.4 Associate and joint arrangements

2.4.1 Associate

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investment in an associate is accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

2.4 Associate and joint arrangements (Continued)

2.4.1 Associate (Continued)

The Group's share of post-acquisition profit or loss is recognised in the statement of profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to "share of loss of an associate" in the consolidated statement of profit or loss.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interest in the associate. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associate have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.4.2 Joint arrangements

The Group has applied HKFRS 11 to all joint arrangements as of 1 April 2012. Under HKFRS 11 investment in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group. The change in accounting policy has been applied as from 1 April 2012.

2 Summary of significant accounting policies (Continued)

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is the Company's functional and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses are presented in the statement of profit or loss within 'other losses, net'.

Changes in the fair value of debt securities denominated in foreign currencies classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences relating to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

(c) Group companies

The results and financial position of all Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(ii) income and expenses for each statement of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting currency translation differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of foreign entity are treated as assets and liabilities of the foreign entity and are translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

2 Summary of significant accounting policies (Continued)

2.5 Foreign currency translation (Continued)

(d) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in the operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the currency translation 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 that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated currency translation differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or joint ventures that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

2.6 Property, plant and equipment

Land and buildings comprise mainly factories and offices and are measured initially at their cost, including related transaction costs. After initial recognition, land and buildings are carried at fair values, based on periodic valuations by external independent valuers less subsequent depreciation and impairment losses. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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 charged to the statement of profit or loss during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

— Leasehold improvements	Over the lease term
— Leasehold land and buildings	Shorter of the remaining lease term of 50 years or useful life
— Furniture, fixtures and equipment	5 years
— Machinery	5 years
— Motor vehicles	3–5 years

2 Summary of significant accounting policies (Continued)

2.6 Property, plant and equipment (Continued)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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 (note 2.11).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other losses, net' in the statement of profit or loss.

2.7 Investment Properties

Investment property, principally comprising leasehold land and buildings, is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group. It also includes properties that are being constructed or developed for future use as investment properties and land for which the use has not yet been determined. Land held under operating leases are accounted for as investment properties when the rest of the definition of an investment property is met. In such cases, the operating leases concerned are accounted for as if they were finance leases. Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs. After initial recognition, investment properties are carried at fair value, representing open market value determined at each reporting date by external valuers. Fair value is based on active market prices adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Changes in fair values are recorded in the statement of profit or loss as a valuation gain or loss.

2.8 Operating concessions

Operating concessions represent the rights to operate a wastewater and water treatment plant and are stated at the fair value as at the date of acquisition and are subsequently amortised over the operating concessions period and assessed for impairment whenever there is an indication that the operating concessions may be impaired.

Consideration received or receivable by the Group for the construction services rendered under service concession arrangements are recognised at their fair value as a financial asset or an intangible asset.

An intangible asset (operating concessions) has a finite useful life and is recognised to the extent that the Group receives a right to charge users of the public service, which is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the service.

2 Summary of significant accounting policies (Continued)

2.9 Intangible assets

(a) Patent

Purchased patent which has a finite useful life is stated at cost less accumulated amortisation and any accumulated impairment losses. The cost of patent acquired in a business combination is its fair value as at the date of acquisition.

(b) Club membership

Club membership which has a finite useful life is stated at cost less accumulated amortisation and any accumulated impairment losses.

(c) Goodwill

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(d) Contractual customer relationships

Contractual customer relationships acquired in a business combination are recognised at fair value at the acquisition date. The contractual customer relationships have a finite useful life and are carried at cost less accumulated amortisation.

2.10 Fair value measurement

The Group measures its land and buildings classified as property, plant and equipment and financial assets at fair value through profit or loss at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

2 Summary of significant accounting policies (Continued)

2.10 Fair value measurement (Continued)

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1	—	based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2	—	based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3	—	based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2.11 Impairment of non-financial assets

Assets that have an indefinite useful life — for example, goodwill or intangible assets not ready to use — are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.12 Non-current assets (or disposal groups) held-for-sale and discontinued operations

Non-current assets (or disposal groups) are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. Except for certain assets as explained below, the non-current assets, (or disposal groups), are stated at the lower of their carrying amount and fair value less costs to sell. Deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries and associates) and investment properties, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 2.

2 Summary of significant accounting policies (Continued)

2.12 Non-current assets (or disposal groups) held-for-sale and discontinued operations (Continued)

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographic area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

When an operation is classified as discontinued, a single amount is presented in the statement of profit or loss, which comprises the post-tax profit or loss of the discontinued operation and the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

2.13 Financial assets

2.13.1 Classification

The Group classifies its financial assets into the following categories: financial assets at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables', 'restricted and pledged bank deposits' and 'cash and cash equivalents' in the statement of financial position (notes 2.17 and 2.18).

2.13.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the statement of profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

2 Summary of significant accounting policies (Continued)

2.13 Financial assets (Continued)

2.13.2Recognition and measurement (Continued)

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the statement of profit or loss within 'other losses,net' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the statement of profit or loss as part of other income when the Group's right to receive payments is established.

2.14 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.15 Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the 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. The carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the statement of profit or loss.

2 Summary of significant accounting policies (Continued)

2.16 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.17 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.18 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand and deposits held at call with banks.

2.19 Share capital

Ordinary shares are classified as equity.

2.20 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.21 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

2.21 Borrowings (Continued)

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.22 Borrowing costs

General and specific 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.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

2.23 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries, associates and joint ventures operate and estimated taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

(i) Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted at the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

2 Summary of significant accounting policies (Continued)

2.23 Current and deferred income tax (Continued)

(b) Deferred income tax (Continued)

(i) Inside basis differences (Continued)

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(ii) Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only where there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.24 Employee benefits

The Group operates defined contribution pension plans.

(a) Pension obligations

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

2 Summary of significant accounting policies (Continued)

2.24 Employee benefits (Continued)

(b) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of HKAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

(c) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

2.25 Share-based payments

(a) Equity-settled share-based payment transactions

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 share option reserve within equity. The fair value is measured at grant date using the binomial lattice model, 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 options, the total estimated fair value of the 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 that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss in the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the share option reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the share option 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 option 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 retained profits).

2 Summary of significant accounting policies (Continued)

2.26 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events and that it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.27 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below.

(i) Sale of goods

Revenue is recognised when goods are delivered which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts and returns.

(ii) Service concession construction revenue

Revenue from the construction of a wastewater treatment plant under the terms of BOT contracts (service concession agreements) is estimated on a cost-plus basis with reference to a prevailing market rate of gross margin at the date of the agreement applicable to similar construction services rendered in similar location, and is recognised on the percentage-of-completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

2 Summary of significant accounting policies (Continued)

2.27 Revenue recognition (Continued)

(iii) Wastewater treatment revenue

Revenue arising from the operation of wastewater treatment plants is recognised based on actual wastewater treated from meter reading or the amount billed in accordance with the terms of contractual agreements where applicable during the year/period.

(iv) Commission and service

Commission and service income are recognised when services are rendered.

2.28 Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivable is recognised using the original effective interest rate.

2.29 Dividend income

Dividend income is recognised when the right to receive payment is established.

2.30 Leases

Leases in which a significant portion of the risks and rewards of ownership is retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased asset and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

2.31 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividend is approved by the Company's shareholders.

2 Summary of significant accounting policies (Continued)

2.32 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantees are given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms, and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for future premiums is recognised. Subsequent to initial recognition, the Company's liabilities under such guarantees is measured at the higher of the initial amount, less amortisation of fees recognised in accordance with HKAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by management's judgement. The fee income earned is recognised on a straight-line basis over the life of the guarantee. Any increase in the liability relating to guarantees is reported in the statement of profit or loss within administrative expenses.

Where guarantees in relation to loans or other payables of subsidiaries, associates or joint ventures are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment in the financial statements of the Group or the Company.

3 Application of new and revised Hong Kong Financial Reporting Standards ("HKFRSs")

New and amended standards adopted by the Group

In the current year, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are 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 HKAS 1	Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HKAS 19 (Revised)	Employee Benefits
Annual Improvements to HKFRSs	2009–2011 Cycle
Amendments to HKFRS 7	Disclosures — Offsetting Financial Assets and Financial Liabilities

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

Amendments to HKAS 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.

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.

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

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.

As a result of the adoption of HKFRS 11, the Group has changed its accounting policy with respect to its interests in joint arrangements and re-evaluated its involvement in its joint arrangements. The Group has reclassified the investments from jointly controlled entities to joint ventures. The investments continue to be accounted for using the equity method and therefore this reclassification does not have any material impact on the financial position and the financial result of the Group.

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 the notes to the consolidated financial statements.

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 to the consolidated financial statement. The adoption of HKFRS 13 does not have any material impact on the fair value measurements of the Group's assets and liabilities.

4 Financial risk management

4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

4 Financial risk management (Continued)

4.1 Financial risk factors (Continued)

(a) Market risk

(i) Foreign exchange risk

The Group is exposed to currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. For companies with Hong Kong dollars ("HK$") as their functional currency, as HK$ is pegged to United States dollars ("US$"), management believes that the foreign exchange risk for translations between HK$ and US$ do not have material impact to the Group. For companies with Renminbi ("RMB") as their functional currency, they are not exposed to material foreign exchange risk as all settlements for receivables and payables are in RMB.

The Group ensures that the exposure on recognised assets and liabilities arising from sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate is kept to an acceptable level, by buying or selling foreign currency at spot rate where necessary to address short-term imbalances.

The Group and the Company are not exposed to material foreign exchange risk as they have no significant balances and transactions which are denominated in its non-functional currency. Accordingly, no sensitivity analysis is performed.

(ii) Price risk

The Group is exposed to equity price risk arising from trading of listed securities classified as trading securities in the consolidated statement of financial position. The sensitivity analysis has been determined based on the exposure to equity price risk.

At 31 December 2013, if the quoted market prices of the trading securities had been 20% higher or lower while all other variables were held constant, the Group's loss before taxation for the year would decrease or increase by approximately HK$88,000 (period ended 31 December 2012: the Group's loss before taxation would decrease or increase by approximately HK$252,000) as a result of changes in fair value of investments.

The sensitivity analysis has been determined assuming that the reasonably possible changes in the stock prices had occurred at the end of the reporting period and had been applied to the exposure to equity price risk in existence at that date. The stated changes represent management's assessment of reasonably possible changes in the relevant stock price over the period until the end of the next annual reporting period. The analysis is performed on the same basis for December 2012.

4 Financial risk management (Continued)

4.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(iii) Cash flow and fair value interest rate risk

The Group's interest rate risk arises primarily from the Group's interest-bearing borrowings which carry interest at fixed rates. The Group does not use financial derivatives to hedge against the interest rate risk. The Group's interest rate profile as monitored by management is set out below.

Interest rate profile

The Group has fair value interest rate risk arising from its fixed interest rate borrowings. The Group's objective is to have most of its borrowings at fixed rates.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and the Group's credit risk is primarily attributable to the trade and other receivables and deposits with financial institutions. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

(i) Trade and other receivables

Management has established a credit policy under which credit evaluations are performed on all customers requiring credit. Trade and other receivables are due depending on contract terms or within 2 months from the date of billing. Debtors with balances that are more than 3 months overdue are requested to settle all outstanding balance before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. At the end of the reporting period, the Group has concentration of credit risk as 70% (2012: 56%) and 84% (2012: 90%) of the total trade related receivables was due from the Group's largest customer and the five largest customers respectively.

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each financial asset in the consolidated statement of financial position after deducting any impairment allowance.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 27.

(ii) Deposits with financial institutions

The Group limits its exposure to credit risk by placing deposits with financial institutions of high credit ratings, management does not expect any counterparty to fail to meet its obligations.

As at 31 December 2013, the Group has certain concentration of credit risk as 86% (2012: 85%) of total cash and cash equivalents and restricted and pledged bank deposits were deposited at reputable banks located in Mainland China which management believes are of high credit quality and without significant credit risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Financial risk management (Continued)

4.1 Financial risk factors (Continued)

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's policy is to regularly monitor its current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash. The directors closely monitor the Group's liquidity position and plans to implement initiatives to improve the Group's cash flow by obtaining adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. The Group relies on bank borrowings as a significant source of liquidity. At 31 December 2013, the Group has available un-utilised banking facilities of approximately HK$30,480,000 (2012: HK$24,800,000), details of which are disclosed in note 31.

The following table details the remaining contractual maturities at the end of the reporting period of the Group's and the Company's non-derivative financial liabilities, which are based on the contractual undiscounted cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group and the Company can be required to pay.

	31 December 2013					
Group	**Within 1 year or on demand HK$'000**	**More than 1 year but less than 2 years HK$'000**	**More than 2 years but less than 5 years HK$'000**	**After 5 years HK$'000**	**Total contractual undiscounted cash flows HK$'000**	**Carrying amount HK$'000**
Trade and other payables *(note 30)*	**42,704**	**–**	**–**	**–**	**42,704**	**42,704**
Bank loans	**47,571**	**46,424**	**13,359**	**–**	**107,354**	**93,980**
Entrusted loan	**7,620**	**7,620**	**66,485**	**–**	**81,725**	**63,500**
	97,895	**54,044**	**79,844**	**–**	**231,783**	**200,184**

	31 December 2012					
Group	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	After 5 years HK$'000	Total contractual undiscounted cash flows HK$'000	Carrying amount HK$'000
Trade and other payables *(note 30)*	38,057	–	–	–	38,057	38,057
Bank loans	32,520	30,581	44,910	–	108,011	86,304
	70,577	30,581	44,910	–	146,068	124,361

4 Financial risk management (Continued)

4.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

Company	**31 December 2013** **Within 1 year or on demand** **HK$'000**	**Total contractual undiscounted cash flows** **HK$'000**	**Carrying amount** **HK$'000**
Trade and other payables *(note 30)*	**3,163**	**3,163**	**3,163**
Amounts due to subsidiaries *(note 32)*	**39,911**	**39,911**	**39,911**
	43,074	**43,074**	**43,074**

Company	31 December 2012 Within 1 year or on demand HK$'000	Total contractual undiscounted cash flows HK$'000	Carrying amount HK$'000
Trade and other payables *(note 30)*	5,130	5,130	5,130
Amount due to a subsidiary *(note 32)*	33,207	33,207	33,207
	38,337	38,337	38,337

As at 31 December 2013, the Company had outstanding guarantees issued in respect of banking facilities granted to subsidiaries. The directors do not consider it probable that a claim will be made against the Company under any of guarantees. The maximum amount of the liability under the guarantees is HK$93,980,000 (2012: HK$86,304,000) which is callable within twelve months.

4.2 Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for owners and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher level of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

4 Financial risk management (Continued)

4.2 Capital management (Continued)

The Group monitors its capital structure on the basis of a net debt to equity capital ratio. For this purpose the Group defines net debt as total debt which includes bank loans and entrusted loan less bank deposits and cash. Total equity comprises all components of equity.

During the year ended 31 December 2013, the Group's strategy, which was unchanged from previous year, was to maintain the net debt to equity ratio as low as feasible. The net debt to equity ratio at 31 December 2013 and 2012 was as follows:

	Note	**2013 HK$'000**	2012 HK$'000
Current liabilities:			
Bank loans	*31*	**39,370**	24,304
Non-current liabilities:			
Bank loans	*31*	**54,610**	62,000
Entrusted loan	*31*	**63,500**	—
Total debt		**157,480**	86,304
Less: Restricted and pledged bank deposits	*28*	**(1,182)**	(386)
Cash and cash equivalents	*28*	**(42,529)**	(39,573)
Net debt		**113,769**	46,345
Total equity		**124,949**	183,186
Net debt to equity ratio		**91.1%**	25.3%

In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to owners, issue new shares or sell assets to reduce debt.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Financial risk management (Continued)

4.3 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: based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2 valuations: based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly.

- Level 3 valuations: based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

	2013							
	The Group				**The Company**			
	Quoted prices in active markets (Level 1) HK$'000	**Significant observable inputs (Level 2) HK$'000**	**Significant unobservable inputs (Level 3) HK$'000**	**Total HK$'000**	**Quoted prices in active markets (Level 1) HK$'000**	**Significant observable inputs (Level 2) HK$'000**	**Significant unobservable inputs (Level 3) HK$'000**	**Total HK$'000**
Assets								
Financial assets at fair value through profit or loss								
Trading securities	**440**	**—**	**—**	**440**	**—**	**—**	**—**	**—**

	2012							
	The Group				The Company			
	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Assets								
Financial assets at fair value through profit or loss								
Trading securities	1,258	—	—	1,258	—	—	—	—

There were no transfers between Level 1 and Level 2 during the year/period.

4 Financial risk management (Continued)

4.3 Fair value measurements (Continued)

(ii) Fair value of financial assets and liabilities carried at other than fair value

The fair values of cash and cash equivalents, restricted and pledged bank deposits, trade and other receivables, current portion of bank loans and trade and other payables are not materially different from their carrying amounts because of the immediate or short term maturity of these financial instruments. The carrying amount of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair value as at 31 December 2013 except as follows:

			Fair value measurements as at 31 December 2013 categorised into				
	Carrying amounts at 31 December 2013 HK$'000	Fair value at 31 December 2013 HK$'000	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Carrying amounts at 31 December 2012 HK$'000	Fair value at 31 December 2012 HK$'000
Group							
Bank loans	54.610	53,751	–	53,751	–	62,000	61,878
Entrusted loan	63,500	62,193	–	–	62,193	–	–

Valuation techniques and inputs used in Level 2 fair value measurements

The fair values of the bank loans are estimated as being the present values of future cash flows, discounted at interest rates based on the market interest rates of comparable bank loans as at 31 December 2013.

Valuation techniques and inputs used in Level 3 fair value measurements

The fair value of the entrusted loan is estimated as being the present values of future cash flows, discounted at interest rates based on the government yield curve as at 31 December 2013 plus an adequate constant credit spread.

4.4 Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments.

(i) Trading securities

Fair value is based on quoted market prices at the end of the reporting period without any deduction for transaction costs.

(ii) Interest-bearing loans and borrowings

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

(iii) Financial guarantees

The fair value of financial guarantees issued is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 Turnover

The principal activities of the Group's continuing operations are the provision of wastewater treatment services, construction of wastewater treatment plants services and trading of water treatment machineries.

Turnover represents the revenue from the sales of wastewater treatment goods supplied to customers, the construction of wastewater treatment plants and the provision of wastewater treatment services. The amount of each significant category of revenue recognised in turnover during the year/period is as follows:

Continuing Operations	Year ended 31 December 2013 HK$'000	Period from 1 April 2012 to 31 December 2012 HK$'000
Sales of wastewater treatment goods	11,343	21,096
Construction of wastewater treatment plants	15,607	14,982
Wastewater treatment services	29,361	14,953
	56,311	51,031

6 Other revenue

Continuing Operations	Year ended 31 December 2013 HK$'000	Period from 1 April 2012 to 31 December 2012 HK$'000
Interest income on bank deposits	353	125
Total interest income on financial assets not at fair value through profit or loss	353	125
Rental income from sub-letting of offices	354	140
Others	538	—
	1,245	265

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7 Other losses, net

Continuing Operations	**Year ended 31 December 2013 HK$'000**	Period from 1 April 2012 to 31 December 2012 HK$'000
Net exchange gain	**33**	1
Net (loss)/gain on disposal of property, plant and equipment	**(1,791)**	2,022
Net gain/(loss) on sale of financial assets at fair value through profit or loss	**2,270**	(532)
Net unrealised gain on financial assets at fair value through profit or loss	**—**	347
Impairment loss on intangible assets	**—**	(36,494)
Impairment loss on goodwill	**(758)**	—
Others	**(354)**	(11)
	(600)	(34,667)

8 Loss before taxation

Loss before taxation from continuing operations is arrived at after charging the following:

	Year ended 31 December 2013 HK$'000	Period from 1 April 2012 to 31 December 2012 HK$'000
a) Finance costs		
Interest expenses:		
Bank borrowings wholly repayable within five years	**8,824**	6,347
Entrusted loan wholly repayable within five years	**5,042**	—
Total interest expenses on financial liabilities not at fair value through profit or loss	**13,866**	6,347
Less: amount capitalised on qualifying assets	**—**	(6,347)
	13,866	—

The weighted average capitalisation rate on funds borrowed generally is 7.4% per annum for the period ended 31 December 2012.

8 Loss before taxation (Continued)

Loss before taxation from continuing operations is arrived at after charging the following (Continued):

	Note	**Year ended 31 December 2013 HK$'000**	Period from 1 April 2012 to 31 December 2012 HK$'000
b) Staff costs (including directors' emoluments)			
Salaries, wages and other benefits		**23,234**	13,465
Equity-settled share-based payment expenses		**1,211**	2,389
Pension costs-defined contribution plans		**666**	392
		25,111	16,246
c) Other items			
Amortisation of operating concessions*	*18*	**8,836**	11,828
Amortisation of intangible assets*	*19*	**2,084**	6,188
Cost of inventories sold	*26*	**6,693**	14,517
Cost of construction contracts	*18*	**13,984**	13,424
Depreciation	*16*	**2,737**	1,839
Write-down of obsolete inventories	*26*	**1,035**	1,221
Auditors' remuneration			
— audit services		**1,300**	3,462
— audit services (underprovision in prior year)		**470**	—
— other services		**210**	50
Operating lease charges in respect of properties		**6,394**	3,960
Impairment loss on trade receivables	*27*	**229**	—
Impairment loss on other receivables		**—**	1,033
Impairment loss on amount due from a joint venture	*27*	**3,401**	1,002

* The amortisation of operating concessions and intangible assets (other than club memberships) are included in "Cost of sales" on the face of the consolidated statement of profit or loss.

9 Income tax credit

	Year ended 31 December 2013 HK$'000	Period from 1 April 2012 to 31 December 2012 HK$'000
PRC Enterprise Income Tax		
— Current year/period	**–**	687
— Underprovision in prior years	**–**	80
Deferred tax *(note 33)*	**(996)**	(11,146)
Income tax credit	**(996)**	(10,379)

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in these jurisdictions.

No provision for Hong Kong profits tax has been made as the Group has no assessable profits arising in Hong Kong for the year ended 31 December 2013 (period ended 31 December 2012: Nil).

The PRC Enterprise Income Tax provision in respect of operations in the PRC is calculated at the applicable tax rates on the estimated assessable profits for the year/period based on existing legislation, interpretations and practices in respect thereof. In accordance with the PRC Enterprise Income Tax "CIT" Law and its Detailed Implementation Rule, Fanhe (Hulu Island) Water Investment Co., Ltd. ("Fanhe Hulu"), a wholly-owned subsidiary of the Company, enjoys CIT "3+3" holiday from 2010, that is, full exemption for the first 3 years and 50% exemption for the next 3 years, by reason that Fanhe Hulu is engaged in the operations of wastewater treatment.

Beijing Jingrui Kemai Water Purification Technology Company Limited, a wholly-owned subsidiary of the Company, enjoys high-tech enterprise income tax benefit from 2013 to 2014 and the tax rate is 15%.

Withholding tax is applicable to PRC subsidiaries which pay dividend, interest, rent, royalty to non-resident companies. Pursuant to the new PRC CIT Law which took effect from 1 January 2008, a 10% withholding tax was to be levied on dividends declared to foreign enterprise investors from the PRC. A lower withholding tax rate may apply if there is a tax treaty arrangement between the PRC and the jurisdiction of the foreign enterprise investors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9 Income tax credit (Continued)

Reconciliation between tax credit and accounting loss at the applicable tax rates:

	Year ended 31 December 2013 HK$'000	Period from 1 April 2012 to 31 December 2012 HK$'000
Loss before taxation — continuing operations	**(65,965)**	(78,544)
Notional tax on loss before taxation, calculated at the rates applicable to losses in the tax jurisdictions concerned	**(13,584)**	(17,946)
Tax effect of		
— tax concession	**—**	(2,652)
— non-deductible expenses	**1,866**	5,315
— non-taxable income	**(186)**	(794)
— tax losses not recognised	**11,282**	5,618
— utilization of unused tax losses	**(374)**	—
— under provision in prior years	**—**	80
Tax credit	**(996)**	(10,379)

Income tax relating to revaluation surplus on leasehold land and buildings amounted to HK$865,000 for the year ended 31 December 2013. There was no income tax relating to components of other comprehensive loss for the period ended 31 December 2012.

10 Directors' emoluments

Directors' emoluments disclosed pursuant to the Hong Kong Companies Ordinance is as follows:

	Year ended 31 December 2013					
	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Retirement scheme contributions HK$'000	Sub-total HK$'000	Equity-settled share-based payments HK$'000 *(note (a))*	Total HK$'000
Executive directors						
Xu Zhong Ping	–	1,950	–	1,950	42	1,992
Pan Yutang	–	1,560	–	1,560	55	1,615
Zhang Fang Hong	–	1,560	–	1,560	422	1,982
Xu Xiao Yang	–	1,300	–	1,300	58	1,358
Song Xuan *(retired on 29 May 2013)*	–	–	–	–	–	–
	–	6,370	–	6,370	577	6,947
Non-executive directors						
Ge Ze Min	–	–	–	–	–	–
Ma Tian Fu	240	–	–	240	55	295
	240	–	–	240	55	295
Independent non-executive directors						
Xin Luo Lin	120	–	–	120	–	120
Wong Kam Wah	120	–	–	120	–	120
Zhu Nan Wen	120	–	–	120	–	120
Zuo Jiane	120	–	–	120	–	120
	480	–	–	480	–	480
	720	6,370	–	7,090	632	7,722

10 Directors' emoluments (Continued)

	Period from 1 April 2012 to 31 December 2012					
	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Retirement scheme contributions HK$'000	Sub-total HK$'000	Equity-settled share-based payments HK$'000 *(note (a))*	Total HK$'000
Executive directors						
Xu Zhong Ping	–	1,500	–	1,500	84	1,584
Zhang Fang Hong	–	1,200	–	1,200	841	2,041
Song Xuan *(retired on 29 May 2013)*	–	–	–	–	–	–
Xu Xiao Yang	–	835	–	835	114	949
Pan Yutang *(appointed on 28 September 2012)*	–	390	–	390	109	499
	–	3,925	–	3,925	1,148	5,073
Non-executive directors						
Ge Ze Min	–	–	–	–	–	–
Fong Sai Mo *(resigned on 4 September 2012)*	400	–	–	400	–	400
Ma Tian Fu *(appointed on 4 September 2012)*	80	–	–	80	109	189
	480	–	–	480	109	589
Independent non-executive directors						
Xin Luo Lin *(re-designated on 7 August 2012)*	–	–	–	–	–	–
Wong Kam Wah	90	–	–	90	–	90
Zhu Nan Wen	90	–	–	90	–	90
Zuo Jiane	90	–	–	90	–	90
	270	–	–	270	–	270
	750	3,925	–	4,675	1,257	5,932

Note:

(a) These represent the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 2.25.

As at 31 December 2013, the directors held share options under the Company's share option scheme. The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share option scheme" in note 34.

(b) During the year/period, no remuneration was paid by the Group to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any remuneration during the year/period.

11 Five highest paid individuals

The five individuals who emoluments were the highest in the Group for the year include four (period ended 31 December 2012: four) directors of the Company whose emoluments are disclosed in note 10. The emoluments of the remaining one (period ended 31 December 2012: one) individual were as follows:

	Year ended 31 December 2013 HK$'000	Period from 1 April 2012 to 31 December 2012 HK$'000
Salaries and other emoluments	**635**	437
Discretionary bonuses	**66**	50
Retirement scheme contributions	**15**	11
Equity-settled share-based payments	**9**	18
	725	516

The emoluments of the one (period ended 31 December 2012: one) individual with the highest emoluments are within the following band:

	Number of individuals	
	Year ended 31 December 2013	Period from 1 April 2012 to 31 December 2012
HK$Nil — HK$1,000,000	**1**	1
	1	1

12 Loss attributable to owners of the Company

The consolidated loss attributable to owners of the Company includes a loss of HK$34,277,000 (period ended 31 December 2012: HK$72,618,000) which has been dealt with in the financial statements of the Company.

13 Dividends

The board of directors do not recommend the payment of any dividend for the year ended 31 December 2013 (period ended 31 December 2012: HK$Nil).

14 Loss per share

(a) From Continuing Operations

The calculations of basic and diluted loss per share from continuing operations attributable to owners of the Company is based on the following data:

Loss figures are calculated as follows:	**Year ended 31 December 2013 HK$'000**	Period from 1 April 2012 to 31 December 2012 HK$'000
Loss attributable to owners of the Company	**(64,568)**	(64,677)
Less: profit from discontinued operations	**–**	(2,880)
Loss for the purpose of basic and diluted loss per share from continuing operations	**(64,568)**	(67,557)
Number of shares		
Weighted average number of ordinary shares in issue (thousands)	**2,500,303**	2,500,303

The computation of diluted loss per share for the year/period does not assume the exercise of the outstanding share options since the exercise price of the share options exceeded the average market price of ordinary shares during the year/period.

(b) From Continuing and Discontinued Operations

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

	Year ended 31 December 2013 HK$'000	Period from 1 April 2012 to 31 December 2012 HK$'000
Loss for the year/period attributable to the owners of the Company for the purposes of basic and diluted loss per share	**(64,568)**	(64,677)

The denominators used are the same as those detailed above for both basic and diluted loss per share from continuing operations.

(c) From Discontinued Operations

For the period from 1 April 2012 to 31 December 2012, basic and diluted earning per share for the discontinued operations were HK0.11 cents per share, based on profit for the period from the discontinued operations of HK$2,880,000 and the denominators detailed above for both basic and diluted loss per share.

15 Segment reporting

The Group manages its business by divisions which are organised from the product perspective.

Operating segments are identified on the basis of internal reports which provide information about components of the Group. These information are reported to and reviewed by the executive directors, being the chief operating decision-maker ("CODM") for the purposes of resources allocation and performance assessment. The Group has presented the following three reportable segments. No operating segments has been aggregated to form the following reportable segments:

Continuing operations:

i. Wastewater treatment and construction services

This segment engages in the provision of wastewater treatment plants construction and operation services on a Build-Operate-Transfer ("BOT") basis.

ii. Wastewater treatment equipment trading

This segment engages in the trading of wastewater treatment facilities and machineries and the provision for related services.

Discontinued operations:

iii. Vehicles and spare parts and provision of engineering services

This segment derives its revenue from sales of coaches, trucks and spare parts for buses and provides warranty and maintenance and after sales services.

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's CODM monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

The accounting policies of the reportable segments follow the Group's accounting policies. Segment profit/(loss) represents the profit earned by/(loss) from each segment without allocation of central administration costs such as directors' salaries and unallocated other income/losses. This is the measure reported to the CODM for purposes of resources allocation and performance assessment. Taxation charge/(credit) is not allocated to reportable segments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15 Segment reporting (Continued)

(a) Segment results, assets and liabilities (Continued)

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

The revenue from external parties reported to the CODM is measured in a manner consistent with that in the statement of profit or loss.

All assets are allocated to reportable segments other than the financial assets at fair value through profit or loss, unallocated cash and cash equivalents and corporate assets. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments.

All liabilities are allocated to reportable segments other than current and deferred tax liabilities, borrowings not attributable to individual segments and corporate liabilities. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

An analysis of the Group's reportable segment results is reported below.

For the year ended 31 December 2013

	Continuing operations				
	Wastewater treatment and construction services HK$'000	Wastewater treatment equipment trading HK$'000	Subtotal HK$'000	Unallocated HK$'000	Total HK$'000
Segment revenue					
Revenue from external customers	44,968	11,343	56,311	—	56,311
Reportable segment loss before tax	(5,575)	(33,364)	(38,939)	(27,026)	(65,965)
Interest income	(46)	(87)	(133)	(220)	(353)
Finance costs	8,646	5,220	13,866	—	13,866
Depreciation and amortisation	9,289	3,514	12,803	854	13,657
Write-down of inventories	—	1,035	1,035	—	1,035
Loss on disposal of property, plant and equipment	62	251	313	1,478	1,791
Impairment loss on goodwill	—	758	758	—	758
Impairment loss on trade receivables	—	229	229	—	229
Impairment loss on amount due from a joint venture	—	3,401	3,401	—	3,401
Additions to non-current assets (other than financial assets and deferred tax assets)	24,651	5,323	29,974	21	29,995
Share of loss of an associate	—	1,396	1,396	—	1,396

15 Segment reporting (Continued)

(a) Segment results, assets and liabilities (Continued)

An analysis of the Group's reportable segment result is reported below. (Continued)

For the period from 1 April 2012 to 31 December 2012

	Discontinued operation	Continuing operations				
	Trading of vehicles and spare parts and provision of engineering services HK$'000	Wastewater treatment and construction services HK$'000	Wastewater treatment equipment trading HK$'000	Subtotal HK$'000	Unallocated HK$'000	Total HK$'000
Segment revenue						
Revenue from external customers	301	29,935	21,096	51,031	—	51,332
Reportable segment (loss)/ profit before tax	2,898	(3,490)	(45,062)	(48,552)	(29,992)	(75,646)
Interest income	(10)	(85)	(11)	(96)	(29)	(135)
Finance costs	35	—	—	—	—	35
Depreciation and amortisation	165	12,017	6,858	18,875	980	20,020
Write-down of inventories	—	—	1,221	1,221	—	1,221
Loss/(gain) on disposal of property, plant and equipment	3	—	(2,022)	(2,022)	—	(2,019)
Impairment loss on intangible assets	—	—	36,494	36,494	—	36,494
Impairment loss on other receivables	—	—	1,033	1,033	—	1,033
Impairment loss on amount due from a joint venture	—	—	876	876	126	1,002
Additions to non-current assets (other than financial assets and deferred tax assets)	—	15,114	3,552	18,666	402	19,068
Share of loss of an associate	—	—	779	779	—	779

Note: There were no inter-segment sales for the year/period.

An analysis of the Group's reportable segment assets and liabilities is reported below.

As at 31 December 2013

	Continuing operations				
	Wastewater treatment and construction services HK$'000	**Wastewater treatment equipment trading HK$'000**	**Subtotal HK$'000**	**Unallocated HK$'000**	**Total HK$'000**
Reportable segment assets (including interest in an associate)	**271,605**	**40,241**	**311,846**	**47,807**	**359,653**
Interest in an associate	**—**	**—**	**—**	**—**	**—**
Reportable segment liabilities	**110,980**	**90,000**	**200,980**	**33,724**	**234,704**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15 Segment reporting (Continued)

(a) Segment results, assets and liabilities (Continued)

An analysis of the Group's reportable segment assets and liabilities is reported below. (Continued)

As at 31 December 2012

	Continuing operations				
	Wastewater treatment and construction services HK$'000	Wastewater treatment equipment trading HK$'000	Subtotal HK$'000	Unallocated HK$'000	Total HK$'000
Reportable segment assets (including interest in an associate)	262,865	31,345	294,210	42,317	336,527
Interest in an associate	–	517	517	–	517
Reportable segment liabilities	104,181	14,323	118,504	34,837	153,341

(b) Reconciliations of reportable segment revenue, profit or loss, assets and liabilities and other items

	Year ended 31 December 2013 HK$'000	Period from 1 April 2012 to 31 December 2012 HK$'000
Revenue		
Reportable segment revenue	**56,311**	51,332
Less: revenue attributable to discontinued operations	**–**	(301)
Revenue attributable to continuing operations	**56,311**	51,031

	Year ended 31 December 2013 HK$'000	Period from 1 April 2012 to 31 December 2012 HK$'000
Loss		
Reportable segment loss	**(38,939)**	(45,654)
Less: reportable segment profit from discontinued operations	**–**	(2,898)
Reportable segment loss from continuing operations	**(38,939)**	(48,552)
Other income/(losses), net	**1,564**	(14)
Unallocated amortisation and depreciation	**(854)**	(980)
Unallocated head office and corporate expenses	**(27,736)**	(28,998)
Consolidated loss before taxation from continuing operations	**(65,965)**	(78,544)

15 Segment reporting (Continued)

(b) Reconciliations of reportable segment revenue, profit or loss, assets and liabilities and other items (Continued)

	At 31 December	
	2013	2012
	HK$'000	HK$'000
Assets		
Reportable segments' assets	**311,846**	294,210
Unallocated		
— financial assets at fair value through profit or loss	**440**	1,258
— cash and cash equivalents	**30,849**	9,694
— corporate assets	**16,518**	31,365
Consolidated total assets	**359,653**	336,527
Liabilities		
Reportable segments' liabilities	**200,980**	118,504
Unallocated		
— current income tax payable	**709**	691
— deferred tax liabilities	**20,224**	19,627
— corporate liabilities	**12,791**	14,519
Consolidated total liabilities	**234,704**	153,341

15 Segment reporting (Continued)

(c) Revenue from major products and services

The following is an analysis of the Group's revenue from its major products and services:

	Year ended 31 December 2013 HK$'000	Period from 1 April 2012 to 31 December 2012 HK$'000
Sales of wastewater treatment goods	11,343	21,096
Construction of wastewater treatment plants	15,607	14,982
Wastewater treatment services	29,361	14,953
Attributable to continuing operations	56,311	51,031

(d) Geographical information

The following is an analysis of geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment, operating concessions, goodwill and intangible assets. The geographical location of customers refers to the location at which the services were provided or the goods delivered. The geographical location of property, plant and equipment is based on the physical location of the asset under consideration. In the case of the operating concessions, intangible assets and goodwill, it is based on the location of the operation to which they are allocated.

	Revenues from external customers	
	Year ended 31 December 2013 HK$'000	Period from 1 April 2012 to 31 December 2012 HK$'000
The PRC (place of domicile) — Attributable to continuing operations	56,311	51,031

15 Segment reporting (Continued)

(d) Geographical information (Continued)

	Non-current assets	
	2013	2012
	HK$'000	HK$'000
Hong Kong	**313**	541
The PRC	**277,828**	261,256
	278,141	261,797

(e) Information about major customers

Revenues from customers contributing 10% or more of the total revenue of the Group are as follows:

	Year ended 31 December 2013 HK$'000	Period from 1 April 2012 to 31 December 2012 HK$'000
Customer A — revenue from wastewater treatment — The PRC	**26,054**	14,953
Customer B — revenue from wastewater treatment equipment trading — The PRC	**—**	13,879

16 Property, plant and equipment

Group

	Leasehold improvements HK$'000	Land and buildings held for own use carried at fair value HK$'000	Machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost or valuation						
At 1 April 2012	—	—	—	7,910	2,859	10,769
Exchange adjustments	2	—	—	37	27	66
Additions	261	—	3	1,565	833	2,662
Transferred from disposal group classified as held-for-sale	—	12,830	—	—	—	12,830
Transferred from investment properties *(note 17)*	—	5,650	—	—	—	5,650
Disposals	—	—	—	(3,410)	—	(3,410)
At 31 December 2012	263	18,480	3	6,102	3,719	28,567
Representing						
Cost	263	—	3	6,102	3,719	10,087
Valuation — 2012	—	18,480	—	—	—	18,480
	263	18,480	3	6,102	3,719	28,567
At 1 January 2013	263	18,480	3	6,102	3,719	28,567
Exchange adjustments	2	—	141	113	106	362
Additions	22	—	5,281	226	816	6,345
Acquisition of a subsidiary	—	—	—	23	141	164
Transferred from inventories	—	—	3,515	—	—	3,515
Disposals	(265)	(7,190)	(3)	(802)	(415)	(8,675)
Surplus on revaluation	—	3,458	—	—	—	3,458
Less: elimination of accumulated depreciation	—	(358)	—	—	—	(358)
At 31 December 2013	22	14,390	8,937	5,662	4,367	33,378
Representing						
Cost	22	—	8,937	5,662	4,367	18,988
Valuation — 2013	—	14,390	—	—	—	14,390
	22	14,390	8,937	5,662	4,367	33,378

16 Property, plant and equipment (Continued)

Group (Continued)

	Leasehold improvements HK$'000	Land and buildings held for own use carried at fair value HK$'000	Machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Accumulated depreciation						
At 1 April 2012	–	–	–	1,571	742	2,313
Exchange adjustments	1	–	–	12	10	23
Charge for the period *(note 8(c))*	109	216	1	1,032	481	1,839
Written back on disposals	–	–	–	(387)	–	(387)
At 31 December 2012	110	216	1	2,228	1,233	3,788
At 1 January 2013	110	216	1	2,228	1,233	3,788
Exchange adjustments	1	–	7	48	46	102
Charge for the year *(note 8(c))*	10	370	435	1,057	865	2,737
Written back on disposals	(110)	(228)	–	(387)	(273)	(998)
Elimination on revaluation	–	(358)	–	–	–	(358)
At 31 December 2013	11	–	443	2,946	1,871	5,271
Carrying amount						
At 31 December 2013	11	14,390	8,494	2,716	2,496	28,107
At 31 December 2012	153	18,264	2	3,874	2,486	24,779

16 Property, plant and equipment (Continued)

(a) The following table analyses the land and buildings carried at fair value, by valuation methods.

Fair value hierarchy

	Fair value measurements at 31 December 2013 using		
Description	**Quoted prices in active markets (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
	HK$'000	HK$'000	HK$'000
Recurring fair value measurements			
Land and buildings:			
— in Mainland China	—	—	14,390

There were no transfers between Levels 1, 2 and 3 during the year.

Fair value measurements using significant unobservable inputs (Level 3)

	Land and buildings in Mainland China
	HK$'000
At 1 January 2013	18,264
Disposal	(6,962)
Depreciation	(370)
Net gains from fair value adjustment	3,458
At 31 December 2013	14,390

Valuation processes of the Group

The Group's land and buildings were valued at 31 December 2013 by BMI Appraisals Limited, the independent professional qualified valuers who hold a recognised relevant professional qualification and have recent experience in the locations and segments of the land and buildings valued. For all land and buildings, their current use equates to the highest and best use.

16 Property, plant and equipment (Continued)

Valuation processes of the Group (Continued)

The Group's finance department considers and discusses the valuations performed by the independent valuers for financial reporting purposes, including all key inputs to the valuations and property valuations movements as compared to the prior year. At 31 December 2013, the fair values of the properties have been determined by BMI Appraisals Limited.

Information about fair value measurements using significant unobservable inputs (Level 3)

Description	Valuation technique	Significant unobservable inputs	Range (weighted average)
Land and buildings in Mainland China	Direct comparison approach	Premium on characteristic of the properties	–6% to 6%

The fair value of properties held for own use are determined using direct comparison approach to value these properties in their respective existing state and use on the market basis assuming sale with immediate vacant possession and by making reference to comparable sale evidence. The valuations take into account the characteristic of the properties which included the location, size, view, floor level, year of completion and other factors collectively. Higher premium for properties with higher characteristic will result in a higher fair value measurement.

The revaluation surplus of HK$2,593,000 (period ended 31 December 2012: HK$Nil) has been recognised in other comprehensive income and accumulated in the revaluation reserve, net of deferred tax.

16 Property, plant and equipment (Continued)

(b) The net book value of these land and buildings would have been HK$10,932,000 (2012: HK$18,264,000) had they been stated at cost less accumulated depreciation on the historical cost basis.

(c) At 31 December 2013, the land and buildings of HK$14,390,000 were pledged as security for the Group's bank loans.

(d) The leasehold land and buildings were held in Mainland China under medium-term leases.

Company

	Furniture, fixtures and equipment HK$'000
Cost	
At 1 April 2012, 31 December 2012 and 1 January 2013	1,234
Additions	20
At 31 December 2013	1,254
Accumulated depreciation	
1 April 2012	510
Charge for the period	183
At 31 December 2012 and 1 January 2013	693
Charge for the year	248
At 31 December 2013	941
Carrying amount	
At 31 December 2013	313
At 31 December 2012	541

17 Investment properties

	HK$'000
At fair value	
At 1 April 2012	—
Transferred from disposal group classified as held-for-sale	5,650
Transferred to property, plant and equipment *(note 16)*	(5,650)
At 31 December 2012	—

At 31 March 2012, an investment property situated in Mainland China with a carrying amount of HK$5,650,000 was classified as asset held-for-sale. Following the change of the Group's plan to dispose of the property, it was transferred from asset held for sale to investment properties during the period ended 31 December 2012. At the time of transfer, the carrying amount of the property was HK$5,650,000 and no gain on remeasurement was recognised. Since the property had been used as staff quarters following the transfer, the property was classified as land and buildings accordingly.

18 Operating concessions

During the year ended 31 March 2011, the Group completed the acquisition of 100% equity interest in Fanhe (Beijing) Water Investment Co., Ltd. ("Fanhe Water"). Fanhe Hulu, a wholly-owned subsidiary of Fanhe Water had entered into an operating concession arrangement with Hulu Island City Wastewater Processing Co., Limited (the "Wastewater Company"), a state-owned enterprise under the Municipal Government of Hulu Island City, for the construction and upgrading of a wastewater treatment plant on a Build-Operate-Transfer ("BOT") basis.

The operating concession agreement involves Fanhe Hulu to construct and upgrade a wastewater treatment plant and to operate and maintain the wastewater treatment plant for a period of 30 years from April 2010. The Group will be paid for its services over the period of the service concession arrangement at prices stipulated through a pricing mechanism whereas the sewage treatment service tariff will be reviewed every two years by reference to the operating costs. Fanhe Hulu is entitled to use all the property, plant and equipment of the wastewater treatment plant whereas the Wastewater Company as grantor will control and regulate the scope of services. At the end of the concession period, Fanhe Hulu will surrender to the grantor the wastewater treatment plant together with all the property, plant, and equipment of the wastewater treatment plant.

The Group has contractual obligations which it must fulfil as a condition of its operating concessions, that is (a) to maintain the wastewater and water treatment plants it operates to a specified level of serviceability and/or (b) to restore the plants to a specified condition before they are handed over to the grantor at the end of the service concession arrangement. These contractual obligations to maintain or restore the wastewater and water treatment plants, except for upgrading elements, are recognised and measured in accordance with the policy set out in note 2.26.

18 Operating concessions (Continued)

In accordance with the accounting policy for operating concessions as set out in note 2.8, the consideration paid by the Group for the operating concessions is accounted for as an intangible asset (the "operating concessions"). The carrying amount of the Group's operating concessions is as follows:

	Group
	HK$'000
Cost	
At 1 April 2012	224,651
Additions — construction cost#	15,104
Exchange adjustments	1,826
At 31 December 2012 and 1 January 2013	241,581
Additions — construction costs	15,857
Exchange adjustments	5,845
At 31 December 2013	263,283
Accumulated amortisation	
At 1 April 2012	5,021
Amortisation charge *(note 8(c))*	11,828
Exchange adjustments	119
At 31 December 2012 and 1 January 2013	16,968
Amortisation charge *(note 8(c))*	8,836
Exchange adjustments	571
At 31 December 2013	26,375
Carrying amount	
At 31 December 2013	236,908
At 31 December 2012	224,613

Included in additions are capitalised interest expenses of HK$6,347,000.

18 Operating concessions (Continued)

Additions of operating concessions are analysed as follows:

	Year ended 31 December 2013 HK$'000	Period from 1 April 2012 to 31 December 2012 HK$'000
Construction cost of operating concessions *(note 8(c))*	**13,984**	13,424
Fair value of contribution margin received from the grantor	**1,623**	1,558
Exchange difference	**250**	122
Additions of operating concessions	**15,857**	15,104

The recoverable amount of the operating concessions was valued by Cushman & Wakefield Valuation Advisory Services (HK) Limited ("Cushman"), an independent qualified professional valuer, at 31 December 2013. Cushman has adopted an excess earnings method at a pre-tax discount rate of 16.46% (2012: 15.81%) to value the operating concessions based on the financial projection over the operating period of the concession arrangement of 30 years approved by management. Management estimated the financial projection based on their experience and market factors.

Amortisation has been provided on a straight-line basis over the period of the operating concessions granted to the Group of 30 years from April 2010 to March 2040. The amortisation charge for the year is included in "cost of sales" in the consolidated statement of profit or loss.

At 31 December 2013, the income stream of the operating concessions of the Group with a carrying amount of approximately HK$236,908,000 (2012: HK$224,613,000) were pledged to secure the bank loans granted to the Group (note 31).

19 Intangible assets

	Group			
	Club memberships HK$'000 *(note i)*	**Patent HK$'000** *(note ii)*	**Contractual customer relationship HK$'000** *(note iii)*	**Total HK$'000**
Cost				
At 1 April 2012	1,911	63,295	—	65,206
Exchange adjustments	15	515	—	530
At 31 December 2012 and 1 January 2013	1,926	63,810	—	65,736
Acquisition of a subsidiary	—	—	603	603
Exchange adjustments	47	1,544	15	1,606
At 31 December 2013	1,973	65,354	618	67,945
Accumulated amortisation and impairment losses				
At 1 April 2012	78	10,208	—	10,286
Amortisation charge *(note 8(c))*	63	6,125	—	6,188
Exchange adjustments	1	362	—	363
Impairment loss *(note 7)*	—	36,494	—	36,494
At 31 December 2012 and 1 January 2013	142	53,189	—	53,331
Amortisation charge *(note 8(c))*	86	1,863	135	2,084
Exchange adjustments	5	1,316	2	1,323
At 31 December 2013	233	56,368	137	56,738
Carrying amount				
At 31 December 2013	1,740	8,986	481	11,207
At 31 December 2012	1,784	10,621	—	12,405

19 Intangible assets (Continued)

Note:

(i) The Group holds a membership right in Sand River Golf Club with a useful life of 23 years. The club membership is measured at cost less amortisation and impairment losses. Amortisation is provided on a straight-line basis over its useful life of 23 years.

(ii) The patent of the wastewater treatment equipment trading segment has a finite life and will expire on 16 October 2018. The patent was valued by Cushman at 31 December 2013. Cushman adopted a premium profit method at a pre-tax discount rate of 20.01% (2012: 18.81%) to determine the recoverable amount of the patent. The calculation is based on a financial projection covering a period of approximately 6 years. Management estimated the financial projection based on management approved budget which is based on a forecast of operating results for the first year and based on their experience for the second to fourth years. Cash flows beyond the four-year period are estimated using negative growth rate of 15% and 20% for the remaining two years.

Impairment loss of the patent recognised in the consolidated statement of profit or loss for the period ended 31 December 2012 was mainly due to changes in market condition such as severe competition from other wastewater treatment equipment providers which has a negative impact on the estimated future cash flows of the patent.

Amortisation has been provided on a straight-line basis over the remaining useful life of approximately 8 years from the date of acquisition to 16 October 2018. The amortisation charge of HK$1,863,000 (period ended 31 December 2012: HK$6,125,000) and impairment loss of HK$Nil (period ended 31 December 2012: HK$36,494,000) are included in 'cost of sales' and 'other losses, net' in the consolidated statement of profit or loss.

(iii) Contractual customer relationships acquired in a business combination are recognised at fair value at the acquisition date. The contractual customer relationships have a finite useful life and are carried at cost less accumulated amortisation and impairment losses.

Amortisation has been provided on a straight-line method over the expected life of the customer relationship of 3 years. The amortisation charge of HK$135,000 (period ended 31 December 2012: HK$Nil) is included in 'cost of sales' in the consolidated statement of profit or loss.

20 Goodwill

	Group HK$'000
Cost	
At 1 April 2012, 31 December 2012 and 1 January 2013	—
Acquisition of a subsidiary	2,626
Exchange difference	63
At 31 December 2013	2,689
Accumulated impairment loss	
At 1 April 2012, 31 December 2012 and 1 January 2013	—
Impairment loss *(note 7)*	758
Exchange difference	12
At 31 December 2013	770
Carrying amount	
At 31 December 2013	1,919
At 31 December 2012	—

Note: The impairment loss of HK$758,000 (period ended 31 December 2012: HK$Nil) is included in 'other losses, net' in the consolidated statement of profit or loss.

20 Goodwill (Continued)

The goodwill of HK$2,626,000 was generated from acquisition of Shenzhen Huaxin Zhongshui Protection Engineering Company Limited ("Shenzhen Huaxin") (Note 39). Shenzhen Huaxin was viewed as one cash-generating unit ("CGU"). The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering an nine-year period using an estimated weighted average growth rate of 18.5%, which is based on past performance and its expectations of market development. Cash flows beyond the nine-year period are extrapolated using the estimated growth rates of 3% which is consistent with the forecasts included in industry reports. The growth rate of 3% does not exceed the long-term average growth rate for the wastewater treatment equipment trading business in which the CGU operates. The cash flows are discounted using a pre-tax discount rate of 16.23%.

An impairment loss was recognised during the year because the Group had originally anticipated that there would be significant growths of revenue and profitability of the CGU as at the date of acquisition, but in the current year, the growth rate of revenue and profitability of the CGU had been lower than expected. As the CGU has been reduced to its recoverable amount of HK$2,431,000, any adverse change in the assumptions used in the calculation of recoverable amount would result in further impairment losses.

21 Investments in and loans to subsidiaries

	Company	
	2013	2012
	HK$'000	HK$'000
Unlisted shares, at cost	**59,263**	59,263
Loans due from subsidiaries	**182,279**	201,761
Less: impairment losses	**(84,432)**	(75,952)
	157,110	185,072

21 Investments in and loans to subsidiaries (Continued)

Note:

(a) The amounts due from subsidiaries are unsecured, interest-free and not expected to be recovered within one year. In the opinion of the directors, these advances are considered as quasi-equity loans to the subsidiaries.

(b) During the year ended 31 December 2013, the Company recognised an impairment loss of HK$8,480,000 (period ended 31 December 2012: HK$53,960,000) on the amounts due from subsidiaries as the subsidiaries were operating at a loss and in a net liability position. The directors are of the opinion that the recoverable amount of the balance due was less than its carrying amount.

(c) Movements in impairment losses

	Company	
	Year ended 31 December 2013 HK$'000	Period from 1 April 2012 to 31 December 2012 HK$'000
At beginning of the year/period	**75,952**	21,992
Impairment loss recognised	**8,480**	53,960
At end of the year/period	**84,432**	75,952

(d) The Group had no subsidiaries which have material non-controlling interests for the year ended 31 December 2013 and period ended 31 December 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21 Investments in and loans to subsidiaries (Continued)

The following is a list of the principal subsidiaries at 31 December 2013:

Name of subsidiary	Place of incorporation/ business	Particulars of issued share capital/paid up registered capital	Proportion of ownership interest		Principal activities
			Direct	Indirect	
Beijing Jingrui Kemai Water Purification Technology Company Limited ("Jingrui Kemai")# 北京精瑞科邁淨水技術有限公司	Mainland China*	RMB10,000,000	–	100%	Development of water purification technology and wastewater treatment equipment trading
Fanhe (Hulu Island) Water Investment Company Limited ("Fanhe Hulu")# 凡和（葫蘆島）水務投資有限公司	Mainland China*	RMB50,000,000	–	100%	Provision of wastewater treatment and construction services
Hunan Qifan Environmental Investment Management Co., Ltd. ("Hunan Qifan")# 湖南啟帆環保投資管理有限公司	Mainland China**	RMB5,000,000	–	80%	Development of environmental protection related project
Shenzhen CETH Environmental Technology Co. Ltd. ("Shenzhen CETH")# 深圳中環科環保科技有限公司 (Formerly known as 深圳興創富啟環保科技有限公司)	Mainland China*	RMB10,357,000	–	100%	Development of environmental protection related project
Hunan Chezhou CETH Environmental Technology Co., Ltd.# 湖南郴州中環科環保科技發展有限公司	Mainland China*	RMB10,000,000	–	100%	Development of environmental protection related project
Yardway Development Limited	British Virgin Islands ("BVI")/Hong Kong	10,000 ordinary shares of US$1 each	100%	–	Property holding

* a wholly foreign owned enterprise

\# The company name in English is not the official name but a translation for reference only.

** a limited liability enterprise

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22 Interest in an associate

	2013 HK$'000	2012 HK$'000
Share of net assets	**–**	517

The particulars of the associate of the Group, which is unlisted, as at 31 December 2013, are as follows:

Name of associate	**Form of business structure**	**Place of incorporation and business**	**Particulars of paid up registered capital**	**Proportion of ownership interest indirectly held by the Company**	**Principal activity**
綠源（北京）環保設備股份有限公司	Incorporated	Mainland China	RMB5,000,000	35%	Trading and installation of environmental equipment

Information of an associate that is not individually material:

	2013 HK$'000	2012 HK$'000
Carrying amount of individually immaterial associate in the consolidated financial statements	**–**	517
Amounts of the Group's share of the associate's		
Loss from continuing operations *(note)*	**(1,396)**	(779)
Other comprehensive income	**–**	–
Total comprehensive loss	**(1,396)**	(779)

Note: The Group has discontinued the recognition of its share of loss of the associate because the share of loss of the associate exceeded the Group's interest in the associate and the Group has no obligation to take up further losses. The amounts of the Group's unrecognised share of losses of this associate for the current year and cumulatively were HK$35,000 (period ended 31 December 2012: HK$Nil) and HK$35,000 (period ended 31 December 2012: HK$Nil), respectively.

23 Interests in joint ventures

	Group		**Company**	
	2013 HK$'000	2012 HK$'000	**2013 HK$'000**	2012 HK$'000
Unlisted shares, at cost	**–**	–	**–**	–
Share of net assets	**–**	–	**–**	–

23 Interests in joint ventures (Continued)

Details of the Group's interests in the joint ventures are as follows:

Name of joint venture	Form of entity	Place of incorporation and business	Particulars of issued share capital /registered capital	Proportion of ownership interest held by the Company Directly	Proportion of ownership interest held by the Company Indirectly	Principal activity
Beijing Capital Environment Construction Company Limited	Incorporated	Cayman Islands/Hong Kong	2 ordinary shares of HK$1 each	50%*	–	Investment holding
Beijing Capital Environment Construction (Hong Kong) Company Limited 首創環保建設（香港）有限公司	Incorporated	Hong Kong/Hong Kong	1 ordinary share of HK$1	–	50%	Inactive
Beijing Shouqiang Innovative Environmental Protection Technology Co., Ltd ("Beijing Shouqiang") 北京首強創新環保科技有限公司	Incorporated	PRC	Registered capital of HK$6,000,000	–	50%	Provision of environmental consultancy services

* On 11 May 2012, a wholly-owned subsidiary transferred its 50% entity interest in Beijing Capital Environment Construction Company Limited to the Company.

Information of joint ventures that are not individually material:

	2013 HK$'000	2012 HK$'000
Aggregate carrying amount of individually immaterial joint ventures in the consolidated financial statements	–	–
Aggregate amounts of the Group's share of those joint ventures'		
Loss from continuing operations	–	–
Other comprehensive income	–	–
Total comprehensive loss	–	–

The Group has discontinued the recognition of its share of losses of the joint ventures because the share of losses of the joint ventures exceeded the Group's interests in the joint ventures and the Group has no obligation to take up further losses. The amounts of the Group's unrecognised share of losses of the joint ventures for the current year and cumulatively were HK$1,872,000 (period ended 31 December 2012: HK$1,774,000) and HK$4,708,000 (period ended 31 December 2012: HK$2,836,000), respectively.

24 Financial instruments by category

(a) Group

	Loans and receivables		Financial assets at fair value through profit or loss		Total	
	2013	2012	**2013**	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Assets as per consolidated statement of financial position						
Trade and other receivables excluding prepayments and deposits *(note 27)*	**18,727**	22,113	**–**	–	**18,727**	22,113
Financial assets at fair value through profit or loss *(note 25)*	**–**	–	**440**	1,258	**440**	1,258
Restricted and pledged bank deposits *(note 28)*	**1,182**	386	**–**	–	**1,182**	386
Cash and cash equivalents *(note 28)*	**42,529**	39,573	**–**	–	**42,529**	39,573
Total	**62,438**	62,072	**440**	1,258	**62,878**	63,330

24 Financial instruments by category (Continued)

(a) Group (Continued)

	Financial liabilities at amortised cost	
	2013	2012
	HK$'000	HK$'000
Liabilities as per consolidated statement of financial position		
Bank loans *(note 31)*	**93,980**	86,304
Entrusted loan *(note 31)*	**63,500**	—
Trade and other payables excluding non-financial liabilities *(note 30)*	**42,704**	38,057
Total	**200,184**	124,361

(b) Company

	Loans and receivables	
	2013	2012
	HK$'000	HK$'000
Assets as per statement of financial position		
Other receivables excluding prepayments and deposits *(note 27)*	**295**	295
Cash and cash equivalents *(note 28)*	**6,050**	6,178
Total	**6,345**	6,473

	Financial liabilities at amortised cost	
	2013	2012
	HK$'000	HK$'000
Liabilities as per statement of financial position		
Other payables *(note 30)*	**3,163**	5,130
Amounts due to subsidiaries	**39,911**	33,207
Total	**43,074**	38,337

25 Financial assets at fair value through profit or loss

	Group	
	2013	2012
	HK$'000	HK$'000
Listed equity securities in Hong Kong, at fair value	**440**	1,258

Changes in fair values of financial assets at fair value through profit or loss are recorded in "other losses, net" in the consolidated statement of profit or loss (note 7).

The fair value of listed equity securities is based on their quoted prices at the end of the reporting period.

26 Inventories

	Group	
	2013	2012
	HK$'000	HK$'000
Raw materials	**1,294**	1,035
Work-in-progress	**1,896**	1,090
Finished goods	**12,404**	5,432
	15,594	7,557

The analysis of the amount of inventories recognised as expenses is as follows:

	Group	
	Year ended 31 December 2013	Period from 1 April 2012 to 31 December 2012
	HK$'000	HK$'000
Carrying amount of inventories sold *(note 8(c))*	**6,693**	14,517
Write-down of obsolete inventories *(note 8(c))*	**1,035**	1,221
	7,728	15,738

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27 Trade and other receivables

		Group		Company	
		2013	2012	**2013**	2012
	Note	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Trade receivables	*(a)*	**14,814**	12,143	**—**	—
Less: allowance for doubtful debts		**(233)**	—	**—**	—
		14,581	12,143	**—**	—
Other receivables		**4,146**	9,970	**295**	295
Amount due from a joint venture	*(b)*	**—**	—	**—**	—
Loans and receivables		**18,727**	22,113	**295**	295
Trade deposits		**1,233**	614	**—**	—
Prepayments and deposits		**1,807**	2,712	**865**	876
		21,767	25,439	**1,160**	1,171

All of the trade and other receivables are expected to be recovered or recognised as expenses within one year.

As at 31 December 2013 and 2012, the ageing analysis of the trade receivables based on invoice date were as follows:

	2013	2012
	HK$'000	HK$'000
Within 2 months	**4,992**	7,040
More than 2 months but within 3 months	**2,616**	1,701
More than 3 months but less than 12 months	**5,033**	2,184
More than 12 months	**1,940**	1,218
	14,581	12,143

The ageing analysis of the Group's trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	Group	
	2013	2012
	HK$'000	HK$'000
Neither past due nor impaired	**3,805**	6,465
More than 2 months but within 3 months past due	**5,030**	3,867
More than 3 months but less than 12 months past due	**3,806**	593
More than 12 months past due	**1,940**	1,218
	14,581	12,143

27 Trade and other receivables (Continued)

Notes: (Continued)

(a) Trade receivables (Continued)

Impairment of trade receivables

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.

Movements in the allowance for doubtful debts

	Group	
	2013	2012
	HK$'000	HK$'000
At 1 January	**—**	—
Impairment loss recognised *(note 8(c))*	**229**	—
Exchange adjustments	**4**	—
At 31 December	**233**	—

As at 31 December 2013, trade receivables of the Group amounting to HK$233,000 (2012: HK$Nil) were individually determined to be impaired. The individually impaired receivables were outstanding for more than 12 months at the end of the reporting period. Accordingly, specific allowances for doubtful debts of HK$233,000 (2012: HK$Nil) were recognised.

Trade receivables are due in accordance with contract terms or within 2 months from the date of billing. Further details of the Group's credit policy is set out in note 4.1(b)(i).

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believed that no impairment allowance was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable. The Group did not hold any collateral over these balances.

(b) Amount due from a joint venture

The amount due from a joint venture is unsecured, interest-free and repayable on demand. Movements in the amount due from a joint venture are as follows:

	Group	
	2013	2012
	HK$'000	HK$'000
At the beginning of the year/period	**—**	320
Fund advanced	**3,401**	682
Impairment loss recognised *(note 8(c))*	**(3,401)**	(1,002)
At the end of the year/period	**—**	—

27 Trade and other receivables (Continued)

Notes: (Continued)

(b) Amount due from a joint venture (Continued)

During the year ended 31 December 2013, an impairment loss of HK$3,401,000 (period ended 31 December 2012: HK$1,002,000) on the amount due from a joint venture was recognised as the joint venture was operating at a loss and in a net liability position. The directors are of the opinion that the recoverable amount of the balance due from the joint venture was less than its carrying amount.

28 Restricted and pledged bank deposits and cash and cash equivalents

	Group		Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Restricted and pledged bank deposits *(note)*	**1,182**	386	**–**	–
Cash and bank balances	**42,529**	39,573	**6,050**	6,178
	43,711	39,959	**6,050**	6,178
Less: Restricted and pledged bank deposits	**(1,182)**	(386)	**–**	–
Cash and cash equivalents in the statement of financial position and the consolidated statement of cash flows	**42,529**	39,573	**6,050**	6,178

At 31 December 2013, the bank deposits and cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$37,537,000 (2012: HK$33,795,000). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Bank balances carry interest at market rates which range from 0.0001% to 2.55% (2012: 0.0001% to 0.39%) per annum. The bank balances and bank deposits are deposited with creditworthy banks with high credit ratings.

Note: At 31 December 2013, the restricted deposit of the Group amounting to HK$786,000 (2012: HK$Nil) was included in restricted and pledged bank deposits. The restricted deposit was to be used for the repayments of trade payables under banker's consent.

29 Discontinued operations

On 9 March 2012, the Company entered into sale and purchase agreements with an independent third party to dispose of the Group's 100% equity interest in and shareholder's loan to Yardway Limited, Yardway Motors Limited and Yardway Logistics Equipment (Zhuhai) Company Limited (the "Disposal") which are inactive subsidiaries established in Hong Kong at a total consideration of HK$17,500,000. These subsidiaries were operating within the trading of vehicles and spare parts and provisions of engineering services segment. The Disposal was completed on 6 June 2012. Accordingly, the operating results of these subsidiaries up to the date of the Disposal are presented as discontinued operations in the financial statements.

(a) Results of the discontinued operations:

	Period from 1 April 2012 to 6 June 2012 HK$'000
Revenue	301
Cost of sales	(128)
Other revenue	246
Other gains	115
Distribution costs	(761)
Administrative expenses	(1,312)
Valuation loss on investment properties	—
Loss from operations from discontinued operations	(1,539)
Finance costs	(35)
Loss before taxation from discontinued operations	(1,574)
Income tax	(18)
	(1,592)
Gain on disposal of discontinued operations (net of nil tax) *(Note (29d))*	4,472
Profit for the period	2,880

29 Discontinued operations (Continued)

(b) Results of the discontinued operations is arrived at after charging/(crediting) the following:

	Period from 1 April 2012 to 6 June 2012 HK$'000
(i) Finance costs:	
Interest on bank advances wholly repayable within five years	35
(ii) Staff costs:	
Contributions to defined contribution retirement plan	22
Salaries, wages and other benefits	386
	408
(iii) Other items:	
Interest income	(10)
Amortisation of prepaid lease payment	2
Depreciation	163
Cost of inventories sold	128
Operating lease charges in respect of properties	71
Loss on disposal of property, plant and equipment	3

(c) Cash flows of the discontinued operations:

	Period from 1 April 2012 to 6 June 2012 HK$'000
Net cash used in operating activities	(538)
Net cash generated from investing activities	10
Net cash used in financing activities	(139)
Net cash outflows for the period	(667)

29 Discontinued operations (Continued)

(d) Effect of the disposal on the financial position of the Group:

For the period from 1 April 2012 to 31 December 2012

	HK$'000
Net assets disposed of:	
Property, plant and equipment	1,878
Leasehold land	428
Investment properties	39,730
Trade and other receivables	5,883
Inventories	21
Cash and cash equivalents	20,996
Bank loans	(9,326)
Trade and other payables	(32,665)
Current income tax payable	(1,023)
Deferred tax liabilities	(4,448)
Provision for warranty	(4,367)
Net identifiable assets	17,107
Exchange reserve realised on disposal	(4,122)
Gain on disposal of subsidiaries	4,472
	17,457
Satisfied by:	
Cash consideration	17,500
Transaction costs	(43)
	17,457

Analysis of the net cash outflow in respect of the disposal of subsidiaries

Cash consideration	17,500
Transaction costs	(43)
Cash and cash equivalents disposed of	(20,996)
Net cash outflows	(3,539)

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30 Trade and other payables

	Group		Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade payables	**23,229**	19,973	**—**	—
Retention money payable	**66**	—	**—**	—
Other payables	**19,409**	17,712	**3,163**	5,130
Amount due to an associate	**—**	372	**—**	—
Financial liabilities measured at amortised cost	**42,704**	38,057	**3,163**	5,130
Sales deposits received	**13,587**	8,662	**—**	—
	56,291	46,719	**3,163**	5,130

All the trade and other payables are expected to be settled or recognised as income within 12 months. The amount due to an associate was unsecured, interest-free and repayable on demand.

The ageing analysis of the trade payables based on invoice date is as follows:

	2013	2012
	HK$'000	HK$'000
Within 1 month	**8,227**	4,344
After 1 month but within 3 months	**433**	1,793
After 3 months but within 6 months	**5,011**	—
After 6 months but within 1 year	**7,734**	742
After 1 year	**1,824**	13,094
	23,229	19,973

31 Bank and entrusted loans

The analysis of the carrying amount of bank and entrusted loans is as follows:

	Group	
	2013	2012
	HK$'000	HK$'000
Non-current		
Bank loans *(note (a))*	**54,610**	62,000
Entrusted loan *(note (b))*	**63,500**	—
	118,110	62,000
Current		
Portion of bank loans due for repayment within one year	**39,370**	24,304
Total bank and entrusted loans	**157,480**	86,304

At 31 December 2013, total bank and entrusted loans of HK$157,480,000 (2012: HK$86,304,000) were due for repayment as follows:

	Group	
	2013	2012
	HK$'000	HK$'000
Portion of bank loans due for repayment within one year *(note (c))*	**39,370**	24,304
Bank loans due for repayment after one year *(note (c))*:		
After 1 year but within 2 years	**41,910**	24,800
After 2 years but within 5 years	**12,700**	37,200
	54,610	62,000
Entrusted loan due for repayment after one year *(note (c))*:		
After 2 years but within 5 years	**63,500**	—
	118,110	62,000
Total bank and entrusted loans	**157,480**	86,304

Note:

(a) The effective interest rates (which also equals to contractual interest rates) on the Group's fixed rate bank loans ranged from 7.8% to 10.35% (2012: 6.05% to 10.35%) per annum.

As at 31 December 2013, the bank loans were secured by:

(i) the pledge over the income stream from operating concessions with an aggregate carrying amount of approximately HK$236,908,000 (2012: HK$224,613,000) (note 18);

(ii) the pledge over bank deposits;

(iii) the pledge over leasehold land and buildings with an aggregate carrying amount of approximately HK$14,390,000 (2012: Nil) (note 16); and

31 Bank and entrusted loans (Continued)

Note: (Continued)

(a) (Continued)

(iv) corporate guarantees given by the Company.

The total banking facilities granted to the Group amounted to HK$124,460,000 (2012: HK$111,104,000) of which HK$93,980,000 (2012: HK$86,304,000) were utilised as at 31 December 2013.

(b) On 19 March 2013, Shenzhen CETH Environmental Technology Co., Ltd., a wholly-owned subsidiary, entered into an entrusted loan agreement with an independent third party through commissioning a bank to borrow a loan of RMB50,000,000 (equivalent to HK$63,500,000) for a period of three years from 23 April 2013 to 22 April 2016. The loan is secured by a guarantee from the Company. As at 31 December 2013, the effective interest rate of the entrusted loan (which also equals to contractual interest rate) was 12% per annum.

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

The carrying amounts of the bank and entrusted loans are denominated in Renminbi.

32 Amounts due to subsidiaries

The amounts due to subsidiaries are unsecured, interest-free and repayable on demand.

33 Deferred taxation

(a) Deferred tax liabilities recognised:

The components of deferred tax liabilities recognised in the consolidated statement of financial position and the movements during the period/year were as follows:

	Group			
	Operating concessions HK$'000	Intangible assets HK$'000	Revaluation of leasehold land and buildings HK$'000	Total HK$'000
Deferred tax arising from:				
At 1 April 2012	18,394	12,191	—	30,585
Credited to profit or loss *(note 9)*	(491)	(10,655)	—	(11,146)
Exchange adjustments	150	38	—	188
At 31 December 2012 and 1 January 2013	18,053	1,574	—	19,627
Credited to profit or loss *(note 9)*	(666)	(330)	—	(996)
Debited to other comprehensive income	—	—	865	865
Acquisition of a subsidiary	—	150	—	150
Exchange adjustments	422	156	—	578
At 31 December 2013	17,809	1,550	865	20,224

33 Deferred taxation (Continued)

(b) Deferred tax not recognised:

As at 31 December 2013, the Group had estimated tax losses of HK$79,413,000 (2012: HK$57,955,000) attributable to the continuing operations in Hong Kong which are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised as it is not probable that future taxable profits against which the losses can be utilised will be available for the companies in which the losses arose. The tax losses do not expire under the current Hong Kong tax legislation. Tax losses of approximately HK$66,032,000 (2012: HK$33,347,000) attributable to the continuing operations in the PRC are available for offsetting against future profits that may be carried forward for five years for PRC enterprise income tax purpose.

As at 31 December 2013, temporary differences relating to the undistributed profits of subsidiaries amounted to HK$28,900,000 (2012: HK$30,290,000). Deferred tax liabilities of HK$2,890,000 (2012: HK$3,029,000) have not been recognised in respect of the tax that would be payable on the distribution of the retained profits of the Group's foreign-invested enterprises in the PRC as the Company controls the dividend policy of these foreign-invested enterprises and it is probable that such differences will not be reversed in the foreseeable future.

34 Equity-settled share-based transactions

2010 share option scheme

On 10 September 2010, the Company adopted a new share option scheme which replaced 2002 share option scheme.

The new share option scheme was adopted whereby the directors of the Company are authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, shareholders, consultant and potential business parties (the "Participants") to take up options for a consideration of HK$1 per offer to subscribe for shares of the Company. The exercise period of the share options granted is determined by the directors of the Company, but will not be later than 10 years from the date of the offer. Each option gives the holder the right to subscribe for one ordinary share in the Company.

At 31 December 2013, the number of shares in respect of which options had been granted and remained outstanding under 2010 share option scheme was 64,500,000, representing 2.58% of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under 2010 share option scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5,000,000 must be approved in advance by the Company's shareholders.

A consideration of HK$1 is payable on the grant of an option offer. The offer of the option shall be accepted by the Participants within 21 days or such other period as the Board may decide from the date of the offer, otherwise the offer shall deem to have been irrevocably declined. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

34 Equity-settled share-based transactions (Continued)

2010 share option scheme (Continued)

(a) The terms and conditions of the grants are as follows:

	Option Type	Number of shares issuable under options granted	Exercisable period	Contractual life of options	Fair value at grant date
Options granted to directors:					
– on 17 September 2010	2010A	6,800,000	from 17 September 2010 to 16 September 2020	10 years	0.282
	2010B	6,800,000	from 17 September 2011 to 16 September 2020		0.291
	2010C	6,800,000	from 17 September 2012 to 16 September 2020		0.309
	2010D	6,800,000	from 17 September 2013 to 16 September 2020		0.325
		27,200,000			
Options granted to employees of the company:					
– on 17 September 2010	2010E	2,875,000	from 17 September 2010 to 16 September 2020	10 years	0.243
	2010F	2,875,000	from 17 September 2011 to 16 September 2020		0.263
	2010G	2,875,000	from 17 September 2012 to 16 September 2020		0.289
	2010H	2,875,000	from 17 September 2013 to 16 September 2020		0.311
		11,500,000			
Options granted to consultants and other qualified participants:					
– on 17 September 2010	2010E	6,450,000	from 17 September 2010 to 16 September 2020	10 years	0.243
	2010F	6,450,000	from 17 September 2011 to 16 September 2020		0.263
	2010G	6,450,000	from 17 September 2012 to 16 September 2020		0.289
	2010H	6,450,000	from 17 September 2013 to 16 September 2020		0.311
		25,800,00			
Total share options granted		64,500,000			

34 Equity-settled share-based transactions (Continued)

2010 share option scheme (Continued)

(b) The number and weighted average exercise prices of share options are as follows:

	2013		2012	
	Weighted average exercise price	Number of shares issuable under options granted	Weighted average exercise price	Number of shares issuable under options granted
Outstanding at the end of the year/period	HK$0.46	64,500,000	HK$0.46	64,500,000
Exercisable at the end of the year/period	HK$0.46	64,500,000	HK$0.46	48,375,000

The options outstanding at 31 December 2013 had exercise price of HK$0.46 and a weighted average remaining contractual life of 6.75 (2012: 7.75) years.

(c) *Fair value of share options and assumptions*

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial lattice model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial lattice model.

	Option type	
	2010A, 2010B, 2010C, 2010D	2010E, 2010F, 2010G, 2010H
Share prices on grant date	HK$0.46	HK$0.46
Exercise price	HK$0.46	HK$0.46
Expected volatility (expressed as weighted average volatility used in the modeling under binomial lattice model)	80.71%	80.71%
Option life (expressed as weighted average life used in the modeling under binomial lattice model)	10 years	10 years
Expected dividends	0%	0%
Risk-free interest rate (based on Exchange Fund Notes)	2.204%	2.204%
Exercise multiple	2.8	2.2

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

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35 Share capital

	Number of ordinary shares of HK$0.025 per share '000	HK$'000
Authorised		
At 1 April 2012, 31 December 2012, 1 January 2013 and 31 December 2013	8,000,000	200,000
Issued and fully paid		
At 1 April 2012, 31 December 2012, 1 January 2013 and 31 December 2013	2,500,303	62,508

36 Reserves

(a) Group

The amounts of the Group's reserves and the movements therein for the current year and prior period are presented in the consolidated statement of changes in equity.

(b) Company

	Note	Share premium HK$'000	Share option reserve HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 April 2012		162,813	14,908	59,063	(74,438)	162,346
Loss and total comprehensive loss for the period		–	–	–	(72,618)	(72,618)
Equity-settled share-based payment transactions		–	2,389	–	–	2,389
		–	2,389	–	–	2,389
At 31 December 2012		162,813	17,297	59,063	(147,056)	92,117
At 1 January 2013		**162,813**	**17,297**	**59,063**	**(147,056)**	**92,117**
Loss and total comprehensive loss for the year		**–**	**–**	**–**	**(34,277)**	**(34,277)**
Equity-settled share-based payment transactions		**–**	**1,211**	**–**	**–**	**1,211**
		–	**1,211**	**–**	**–**	**1,211**
At 31 December 2013		**162,813**	**18,508**	**59,063**	**(181,333)**	**59,051**

36 Reserves (Continued)

Nature and purpose of reserves

(i) Share premium and contributed surplus

Under the Companies Law (Revised) of the Cayman Islands, the share premium account and contributed surplus account of the Company are distributable to the owners of the Company provided that immediately following the date on which a dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

The contributed surplus of the Company arose from the difference between the consolidated net assets of the Group's subsidiaries acquired and the nominal value of the Company's ordinary shares issued pursuant to the Group reorganisation in 2002.

(ii) Exchange reserve

The exchange 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 policies set out in note 2.5.

(iii) Share option reserve

The share option reserve comprises the portion of the grant date fair value of unexercised share options granted to participants that has been recognised in accordance with the accounting policy adopted for share-based payments in note 2.25.

(iv) Other reserves

The other reserves mainly comprise the statutory reserve of subsidiaries in the PRC. Subsidiaries of the Group in the PRC follow the accounting principles and relevant financial regulations of the PRC, in the preparation of their accounting records and financial statements. Pursuant to the accounting regulations for business enterprises, the subsidiaries are required to appropriate 10% of the profit arrived at for each year to statutory reserve. The profit arrived at must be used initially to set off against any accumulated losses. The appropriations to statutory reserve, after offsetting against any accumulated losses, must be made before the distribution of dividends to owners. The appropriation is required until the statutory reserve reaches 50% of the registered capital. This statutory reserve is not distributable in the form of cash dividends, but may be used to set off losses or be converted into paid-in capital.

(v) Distributability of reserves

At 31 December 2013, the aggregate amount of reserves available for distribution to owners of the Company was HK$40,543,000 (2012: HK$74,820,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37 Related party transactions

The Group has entered into the following material related party transactions during the reporting period:

Key management personnel remuneration

Remuneration for key management personnel including amounts paid to the Company's directors as disclosed in note 10 and all (2012: all) of the highest paid employees as disclosed in note 11, is as follows:

	Year ended 31 December 2013 HK$'000	Period from 1 April 2012 to 31 December 2012 HK$'000
Short-term employee benefits	**7,791**	5,162
Equity-settled share-based payment expenses	**641**	1,275
Post-employment benefits	**15**	11
	8,447	6,448

Total remuneration is included in "staff costs".

38 Commitments

(a) At 31 December 2013, the Group had commitments in respect of capital expenditure outstanding but not provided for in the consolidated financial statements as follows:

	Group	
	2013 HK$'000	2012 HK$'000
Contracted, but not provided for		
— Upgrade and construction of wastewater treatment plants under a service concession arrangement on a BOT basis	**63,565**	76,790
— Investment in an associate	**—**	868
	63,565	77,658

The Company did not have any capital commitments as at 31 December 2013 and 2012.

38 Commitments (Continued)

(b) At 31 December 2013, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Group		Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within 1 year	**4,000**	5,129	**111**	1,928
After 1 year but within 5 years	**586**	2,321	**—**	124
	4,586	7,450	**111**	2,052

The Group is a lessee in respect of a number of properties held under operating leases. The leases typically run for an initial period of one to three years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

39 Business combination

On 12 April 2013, Shenzhen CETH Environmental Technology Co., Ltd ("Shenzhen CETH"), a wholly-owned subsidiary of the Group, entered into an agreement (the "Agreement") with an independent third party (the "Vendor") to purchase 100% equity interest in Shenzhen Huaxin Zhongshui Protection Engineering Company Limited ("Shenzhen Huaxin") at a total consideration of RMB2,900,000 (equivalent to approximately HK$3,596,000). The acquisition was completed on 15 April 2013. Shenzhen Huaxin is engaged in the environmental engineering business. Through the acquisition, the Group is able to expand its business. Pursuant to the Agreement, the consideration for the acquisition shall be paid in cash as follows:

	HK$'000
Upon signing of the Agreement	1,079
Upon the receipt of a certificate of attestation	719
Upon the acceptance of application for the approval of the Acquisition by the Market Supervision Administration of Shenzhen	1,438
Upon the approval of the Acquisition granted by the Market Supervision Administration of Shenzhen	360
Total cash consideration	3,596

During the year ended 31 December 2013, the Group has fully settled the consideration for the acquisition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

39 Business combination (Continued)

Identifiable assets and liabilities

		HK$'000
Non-current assets		
Property, plant and equipment		164
Intangible assets		603
		767
Current assets		
Inventories		139
Trade and other receivables		
— Trade receivables	369	
— Other receivables	1	
		370
Cash and cash equivalents		548
		1,057
Current liabilities		
Trade and other payables		
— Advances from customers	663	
— Accrued expenses	34	
— Value added tax payable	7	
		704
Deferred tax liabilities		150
		854
Total net assets identified		970

The fair value and the gross contractual amount of the receivables acquired in this transaction is HK$370,000. The best estimate at acquisition date of the contractual cash flows not expected to be collected is HK$Nil.

39 Business combination (Continued)

	HK$'000
Consideration transferred	3,596
Less: fair value of identifiable net assets acquired	(970)
Goodwill	2,626

Goodwill arose in the acquisition of Shenzhen Huaxin because the consideration paid for the combination effectively include the benefit of expected future growth and assembled workforce of Shenzhen Huaxin. This benefit is not recognised separately from goodwill because it does not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising from this acquisition is expected to be deductible for tax purposes.

Net cash outflow on acquisition of the subsidiary:

	HK$'000
Cash consideration	3,596
Cash and cash equivalents in subsidiary acquired	(548)
Net cash outflow on acquisition of the subsidiary	3,048

The Group incurred acquisition-related costs of approximately HK$54,000, which have been included in administrative expenses, being legal and professional fees and other charges which have been excluded from the cost of acquisition.

The revenue included in the consolidated statement of profit or loss since 15 April 2013 contributed by Shenzhen Huaxin was HK$2,680,000. Shenzhen Huaxin incurred loss of HK$361,000 over the same period.

Had the acquisition been completed on 1 January 2013, the Group's revenue would have been approximately HK$56,743,000 and loss for the year would have been approximately HK$65,126,000.

The above pro forma information on the Group's revenue and results is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2013, nor is it intended to be a projection of future results.

40 Events after the reporting period

(a) On 11 February 2014, Fanhe (Hulu Island) Water Investment Company Limited, a wholly-owned subsidiary, entered into an agreement to borrow a bank loan of RMB 11,000,000 (equivalent to HK$13,970,000) from a PRC bank, for a period of three years from 11 February 2014 to 10 February 2017. The loan bears interest at 9.84% per annum and is secured by the income stream from the Group's operating concessions. The loan was drawn down on 11 February 2014.

(b) On 28 February 2014, the Company entered into an unconditional financial support agreement for HK$150,000,000 with an indirect shareholder of the Company for a period of two years from 28 February 2014 (the "Period"). During the Period, the Company is entitled to borrow one or more loans from this indirect shareholder, at anytime and in any amount which in aggregate should not exceed HK$150,000,000. The loans are bearing interest at 3% per annum, unsecured and repayable in 2 years from the date of each draw-down.

(c) On 25 March 2014, the Group entered into an agreement to dispose 49% interest in Shenzhen Huaxin Zhongshui Protection Engineering Company Limited and its subsidiary at a consideration of approximately RMB1.4 million (equivalent to approximately HK$1.8 million) reducing its equity interest to 51%. The directors estimated that the Group would record a negative non-controlling interests of approximately HK$0.1 million and an increase in reserves of approximately HK$1.9 million upon completion of the disposal in April 2014.

41 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

41.1 Critical accounting estimates and assumptions

The management makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(i) Going concern

As mentioned in note 2.1.1 to the consolidated financial statements, the directors are satisfied that the Group will be able to meet its financial obligations in full as and when they fall due in the foreseeable future. As the directors are confident that the Group will be able to continue in operational existence in the foreseeable future, the consolidated financial statements have been prepared on a going concern basis. If the going concern basis is not appropriate, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities respectively. Such adjustments may have a significant consequential effect on the loss for the year and net assets of the Group.

(ii) Write-down of obsolescence of inventories

The management determines the write-down for obsolescence of inventories. These estimates are based on the current market condition and the historical experience on selling goods of similar nature. It could change significantly as a result of changes in market conditions. As at 31 December 2013, the carrying amount of inventories is HK$15,594,000 (2012: HK$7,557,000). During the year ended 31 December 2013, the amount of write-down of obsolescence of inventories was HK$1,035,000 (period ended 31 December 2012: HK$1,221,000), if the provision needs to be increased/decreased by 10% as at the end of the reporting period, with all other variables held constant, the Group's loss before tax would have increased/decreased by HK$104,000 (period ended 31 December 2012: HK$122,000).

(iii) Depreciation and impairment loss of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account their estimated residual value. The management reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recognised during the year. The useful lives are based on the management's historical experience with similar assets and taking into account the degree of obsolescence and anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that assets (excluding leasehold land and buildings at fair value) may be impaired. The management will review the estimated future cash flows of the assets regularly in order to determine whether impairment loss is required. An impairment loss is recognised in the statement of profit or loss whenever the carrying amount of an asset exceeds its recoverable amount.

41 Critical accounting estimates and judgements (Continued)

41.1 Critical accounting estimates and assumptions (Continued)

(iii) Depreciation and impairment loss of property, plant and equipment (Continued)

As at 31 December 2013, the carrying amount of property, plant and equipment is HK$28,107,000 (2012: HK$24,779,000).

(iv) Impairment of trade receivables

The management evaluates whether there is any objective evidence that trade receivables are impaired, and determine the amount of impairment loss as a result of the inability of the debtors to make required payments. The management bases the estimates on the ageing of the trade receivables balance, credit-worthiness, and historical write-off experience. If the financial condition of the debtors were to deteriorate, actual write-offs would be higher than estimated.

As at 31 December 2013, the carrying amount of trade receivables is HK$14,581,000 (2012: HK$12,143,000). If management's estimate of the recoverable amount of trade receivables decreased by 1% as at the end of the reporting period, with all other variable held constant, the Group's loss before tax would increase by HK$146,000 (period ended 31 December 2012: HK$121,000).

(v) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The management carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered. The Group has not recognised deferred income tax assets in respect of estimated tax losses carried forward disclosed in note 33 as there is no evidence that future taxable income will be available. As at 31 December 2013, the carrying amount of current income payable and deferred tax liabilities is HK$709,000 (2012: HK$691,000) and HK$20,224,000 (31 December 2012: HK$19,627,000) respectively.

(vi) Impairment of intangible assets and operating concessions

The management 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 management 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.

As at 31 December 2013, the carrying amounts of intangible assets and operating concessions are HK$11,207,000 (2012: HK$12,405,000) and HK$236,908,000 (2012: HK$224,613,000) respectively.

41 Critical accounting estimates and judgements (Continued)

41.1 Critical accounting estimates and assumptions (Continued)

(vii) Impairment of goodwill

The Group determines whether goodwill 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 goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2013 was HK$1,919,000 (2012: HK$Nil). Further details are given in note 20.

41.2 Critical judgements in applying the entity's accounting policies

Operating concessions

The Group entered into a BOT arrangement in respect of wastewater treatment business in 2011. The Group concluded that the BOT arrangement are operating concessions under HK(IFRIC)-Int 12, because the local government controls and regulates the services that the Group must provide with the infrastructure at a pre-determined service charge. In addition, upon expiry of the operating concessions, the infrastructure will be transferred to the local government at nil consideration.

Classification for the operating concessions arrangements between the intangible asset component and the financial asset component, if any, requires the Group to make an estimate of a number of factors, which include, inter alia, expected future wastewater treatment volume of the relevant wastewater treatment plant over the operating concessions period, future guaranteed receipts and unguaranteed receipts, and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Revenue and profit recognition on an uncompleted project is dependent on estimating the total outcome of the construction contract, as well as the work done to date. Based on the Group's recent experience and the nature of the construction activity undertaken by the Group, the Group makes estimates of the point at which it considers the work is sufficiently advanced such that the costs to complete and revenue can be reliably estimated. In addition, actual outcomes in terms of total cost of revenue may be higher or lower than estimated at the end of the reporting period, which would affect the revenue and profit recognised in future years as an adjustment to the amount recorded to date.

42 Pledge of assets

At 31 December 2013, the bank loans of the Group were secured by the Group's leasehold land and buildings of HK$14,390,000 (2012: HK$Nil), income stream from operating concessions with carrying amount of HK$236,908,000 (2012: HK$224,613,000) and restricted and pledged bank deposits of HK$1,182,000 (2012: HK$386,000).

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43 Immediate and ultimate controlling party

At 31 December 2013, the directors consider the immediate and ultimate parent of the Group to be Gentle International Holdings Limited, which is incorporated in the British Virgin Islands and controlled by Mr. Xu Zhong Ping, the chairman of the Company. This entity does not produce financial statements available for public use.

44 Standards, amendments to existing standards and interpretations that are not yet effective and have not been early adopted by the Group

The following new standards, new interpretations and amendments to standards and interpretations have been issued but not effective for the financial year beginning 1 January 2013 and have not been early adopted by 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 36	Recoverable Amount Disclosures for Non-financial Assets[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 currently assessing the impact of the adoption of the above new standards, amendments to standards and interpretations, but is not yet in a position to conclude whether they would have a significant impact to the Group's future consolidated financial statements.

SUMMARY OF PROPERTIES

For the period ended 31 December 2013

The following is a list of the Group's properties at 31 December 2013:

Leasehold properties in the PRC

	Location	**Lease term**	**Purpose**	**Gross area** (sq. m.)
(1)	Room 5E on level 5 and Car Parking Spacing No. 137 on Basement Level Beijing Regent Court No. Yi 8 Jiangguomenwaidajie Chaoyang District Beijing The PRC	Medium	Residential	150.57
(2)	Room 6B on level 6 and Car Parking Spacing No. 138 on Basement Level Beijing Regent Court No. Yi 8 Jiangguomenwaidajie Chaoyang District Beijing The PRC	Medium	Residential	150.57

FIVE YEAR FINANCIAL SUMMARY

	Year ended 31 December 2013 HK$'000	9 months ended 31 December 2012 HK$'000	Year ended 31 March 2012 HK$'000	Year ended 31 March 2011 HK$'000	Year ended 31 March 2010 HK$'000	Year ended 31 March 2009 HK$'000
RESULTS						
Continuing operations						
Turnover	**56,311**	51,031	144,883	158,709	147,311	189,357
(Loss)/profit from operations	**(52,099)**	(78,544)	(32,802)	(43,534)	7,240	(13,636)
Finance costs	**(13,866)**	—	—	(226)	(262)	(1,019)
(Loss)/profit before taxation	**(65,965)**	(78,544)	(32,802)	(43,760)	6,978	(14,655)
Taxation	**996**	10,379	387	(917)	(3,238)	(172)
(Loss)/profit for the year/period from continuing operations	**(64,969)**	(68,165)	(32,415)	(43,677)	3,740	(14,827)
Discontinued operations						
Profit/(loss) for the year/period from discontinued operations	**–**	2,880	(23,247)	—	—	—
(Loss)/profit for the year/period	**(64,969)**	(65,285)	(55,662)	(43,677)	3,740	(14,827)
Attributable to:						
— Owners of the Company	**(64,568)**	(64,677)	(55,238)	(43,677)	3,740	(14,810)
— Non-controlling interests	**(401)**	(608)	(424)	—	—	(17)
(Loss)/profit for the year/period	**(64,969)**	(65,285)	(55,662)	(43,677)	3,740	(14,827)

	As at 31 December 2013 HK$'000	As at 31 December 2012 HK$'000	As at 31 March 2012 HK$'000	As at 31 March 2011 HK$'000	As at 31 March 2010 HK$'000	As at 31 March 2009 HK$'000
ASSETS AND LIABILITIES						
Non-current assets	**278,141**	262,314	283,006	253,060	61,243	54,840
Net current (liabilities)/assets	**(14,858)**	2,499	44,632	96,684	137,689	135,585
Non-current liabilities	**(138,334)**	(81,627)	(79,293)	(60,092)	(3,828)	(2,516)
	124,949	183,186	248,345	289,652	195,104	187,909
Share capital	**62,508**	62,508	62,508	60,775	55,825	55,825
Reserves	**62,638**	120,480	185,035	228,877	139,279	132,084
Total equity attributable to owners of the Company	**125,146**	182,988	247,543	289,652	195,104	187,909
Non-controlling interests	**(197)**	198	802	—	—	—
Total equity	**124,949**	182,186	248,345	289,652	195,104	187,909
(Loss)/earnings per share						
Basic	**(2.58) cents**	(2.59) cents	(2.27) cents	(1.90) cents	0.17 cents	(0.94) cents
Diluted	**(2.58) cents**	(2.59) cents	(2.27) cents	(1.90) cents	0.17 cents	(0.94) cents