中國水業集團有限公司*

CHINA WATER INDUSTRY GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 1129

2014

Annual Report

*For identification purpose only

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Independent Non-Executive Directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

INVESTMENT COMMITTEE

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

COMPANY SECRETARY

Ms. Chu Yin Yin, Georgiana

PRINCIPAL BANKERS

PRC

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

Hong Kong

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

LEGAL ADVISERS TO HONG KONG LAWS

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

AS TO CAYMAN ISLANDS LAWS

Conyers Dill & Pearman

COMPLIANCE ADVISOR

Halcyon Capital Limited

AUDITORS

Crowe Horwath (HK) CPA Limited

REGISTERED OFFICE

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Hutchins Drive
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Grand Cayman KY1-1111
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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited
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Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR TRANSFER OFFICE

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Wanchai, Hong Kong

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STOCK

1129

2014 was another successful year for the Group. Not only had we achieved satisfactory profits, we also opened a new business segment in new energy industry, the garbage resource utilization segment.

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

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

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

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

2014 was the final year of the 3-year plan, under which we should ensure profit growth and lay a solid foundation for our industry development in future.

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

The water tariffs of Yichun Water was way too low due to non-completion of water tariffs adjustment, and coupled with the settlement of historical issue, its profit performance was lack lustre in 2014. However, with its imminent water tariffs adjustment, we believe Yichun Water Industry Co., Ltd* （宜春市供水有限公司） ("**Yichun Water**") profit will improve in 2015.

Under the strong support of the Group, Hainan Danzhou Water Company Limited* (海南儋州自來水有限公司) ("**Hainan Danzhou Water**") strived to settle its historical debts issue. The management of Hainan Danzhou Water is back on track and its operation condition is improving gradually. However, as Danzhou City is undergoing rapid urban development, the investments in water infrastructure is huge and it will take quite some time before making a profit. In 2014, the Group decided to introduce Guangdong Water Group as the strategic partner of Hainan Danzhou Water through disposing of its 70% equity interest held by Super Sino. Such move was believed to be a win-win proposal for the parties.

In 2014, the Group successfully settled the debts issue with Birmingham International Holdings Limited ("**BIHL**"), through waiving parts of the debts owed by BIHL and BIHL shares being resumed trading. BIHL also gave priority in repaying the amount due to us, and coupled with the successful disposition of certain BIHL shares held by the Group at higher prices, we achieved a satisfactory gain for sale of these BIHL shares.

The Group established a headquarter in Nanjing in 2013, and incorporated Greenspring (Nanjing) Recycling Resources Investment Co., Ltd.* (青泓（南京）再生資源投資有限公司) ("**Greenspring (Nanjing)**"). Greenspring (Nanjing) will become the investment entity of the Group in the new energy companies in future. It will conduct resource integration of landfill gas industry and facilitate the development of the Group in garbage resource recycling.

In 2014, the Group successfully acquired the 88% equity interest in Shenzhen City Li Sai Industrial Development Limited* (深圳市利賽實業發展有限公司) ("**Shenzhen Li Sai**"), for which the Group owns the right to use its landfill gas. This was a landmark project for the Group as Shenzhen City Xiaping Solid Waste Landfill Site* 深圳市下坪固体廢棄物填埋場 (the "**Shenzhen Xiaping Landfill Site**") is one of the few modern garbage landfill sites in China with international standards. It is constructed according to the standards of developed countries and will become a standard of China's waste landfill industry. The Group planned to invest and construct a large landfill gas generates natural gas project, for which phase I project is expected to put into operation in April 2015. The compressed natural gas generated is sold to market directly, and phase II project will supply gas directly to residents through pipelines. Such project is the largest landfill gas generating natural gas in China, having tremendous demonstration effect and guiding significance. Such project will also generate sound economic benefits in 2015.

The Changsha garbage landfill gas project will be another key project for the Group. Changsha Qiaoyi Landfill Site* (長沙橋驛填埋場) or Changsha Qiaoyi Solid Waste Landfill Site* (長沙橋驛固體廢氣物填埋場) is the only garbage landfill site in Changsha, with garbage handling capacity of over 5,000 tons/day. The Group has reached a cooperation with Hunan Huiming to expand the compressed natural gas project while maintaining the existing power generation of 10MW. Such project is planned to be put into operation by May 2015. The landfill gas project of 5,000 m^3/hour is also one of largest natural gas projects in China. We believe it will contribute a certain proportion of profit to the Group upon its operation.

In the six comprehensive utilisation of garbage resources, apart from the existing seven projects in six cities, we will continue to further expand our scale through acquisitions and new constructions to speed up replicating our approach and occupy the market. Our aim is become a leading enterprise in comprehensive garbage resources utilisation industry in two years' time.

Currently, the Group has 7 existing garbage resources projects under full operation. Not only will they bring profits to the Group, but also reduce directly carbon dioxide emission of nearly 3 million tons. If such emission reduction can be sold, it will also bring tremendous economic benefits. Therefore, the garbage resources projects of the Group also contribute a lot to the environmental governance.

For garbage resource recycling, apart from the existing garbage-to-power project and garbage landfill gas generates natural gas project that the Group has invested and constructed, the Group and the Chinese Academy of Engineering also jointly established the academician workstation to increase the scientific research investments, striving to find a way more suitable to the garbage resource utilization situation in China. The Group plans to achieve a breakthrough in new garbage sorting and stale garbage sorting. Through intelligent sorting, garbage resource utilization will become the future development direction. Our philosophies are to deploy landfill or incineration for suitable garbage and no landfill or incineration for those that not suitable.

For the future development, the Group will continue to maintain a sustained growth in waterworks and focus on supporting Yingtan Water and Yichun Water companies to become bigger and stronger. The Group will continue to put importance on waterworks and acquire sizable water companies.

For garbage resource utilization, the future development objectives are scale expansion, industrialization, demonstration and internationalization.

Scale Expansion:	Focus on resource recycling projects of large-scale landfill without ignoring small projects and at the same time, integrate the capacity in striving to become industry leader;
Industrialization:	Focus on comprehensive solutions of garbage resource recycling, new garbage sorting and resource recycling, stale garbage sorting and resourceful recycling, complete garbage resource utilization at all stages to maximize resource utilization and establish a garbage resource utilization business;
Demonstration:	Establish a demonstration base to demonstrate the application of advanced technology in garbage resource utilization, through the effect of demonstration project to quickly expand business size to earn market share;
Internationalization:	Expand international markets actively while making accomplishments for projects in Mainland China. In 2015, the Group plans to enter into international markets with Jakarta, Indonesia to start with and expects profits from international projects in next three years will represent one-third of the total profits from garbage resource utilization;

Garbage resource recycling refers to a new, clean, renewable and recyclable energy resource beneficial to both the nation and its people and receiving great support from the nation. There are many problems in domestic garbage resource recycling market at present, such as landfill sites is heavily polluted and direct incineration also poses a lot of problems. Therefore, the potential market for garbage resource recycling in future is huge.

"Under the Dome" is a contemporary popular environmental documentary, which mainly shows the impact of smog on people's livelihood. Smog was caused by air pollution, its main source is undoubtedly industrial pollution. Nevertheless, if we could find a good solution for garbage resource recycling and prevents landfill gas from polluting the air, we are contributing a lot in smog reduction. Solving the garbage problem can also reduce the pollution to land and rivers, and therefore, the Group has a new vision of "making the world endowed with clean water, blue sky and vivid green land".

Through three years of comprehensive management and development, the Group had created a continuous development momentum with its core competitiveness emerging. With a development direction, the next stage is rapid development. The Group began to make profit since 2012 with a significant increase year by year. I hope to start from 2015, the Group's profit can achieve a continuous and considerable growth each year.

Finally, on behalf of the Board and management, I hereby express my gratitude to our shareholders, investors and business partners for their all along trust and support, to the local governments for their support and help to our subsidiaries, and to our staff for their valuable contributions. I sincerely wish everyone will work and progress together with the Group in the future.

Wang De Yin
Chairman and Chief Executive Officer

Hong Kong, 27 March 2015

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FINANCIAL PERFORMANCE

RESULTS

Financial Results

For the year ended 31 December 2014, the Group has recorded a consolidated net profit of HK$229.64 million. In comparison with the consolidated net profit of HK$105.96 million in the corresponding period of 2013, there was a substantial increase of HK$123.68 million. The board of directors ("**Board**") considered that the increase in consolidated net profit was mainly attributable to (i) the net gain on financial assets at fair value through profit or loss of HK$94.75 million, (ii) the increase of net gain on available-for-sale investments by HK$33.82 million, (iii) the increase of gain arising from the change in fair value of derivative financial instruments by HK$39.10 million; and (iv) the gain arising from the disposal of subsidiaries of HK$116.78 million. The Board also recognized that these positive contributions were offset by the following factors (a) absence of income relating to waiver of loan interest and interest payable of HK$59.75 million which was recognized in 2013, (b) the increase of selling and administrative expenses collectively by HK$52.22 million, (c) the increase of finance cost by HK$6.3 million due to imputed interest provided on convertible bonds, (d) impairment loss recognized on goodwill of HK$6.96 million, (e) impairment loss recognized on available-for-sale investments of HK$16.35 million and (f) reduction in reversal of impairment loss on trade and other receivables of HK$20.73 million.

Revenue and Gross Profit

The revenue and gross profit for the year ended 31 December 2014 are HK$507.96 million and HK$199.39 million respectively. These represented a slight reduction of 0.59% in revenue and 0.65% in gross profit from the previous year. The reduction was because to the major source of income generating from the construction services of water supply reduced by 12.74% despite of the increment of water tariff and the positive contribution from the exploitation and sale of renewable energy business. The main contributors were Yichun Water and Yingtan Water which collectively accounted for 42.65% of the revenue and 54.86% of the gross profit. The summary of revenue and gross profit is as follows:

	Revenue				Gross Profit			
	2014		2013		**2014**		2013	
	HK$'M	**%**	*HK$'M*	*%*	***HK$'M***	**%**	*HK$'M*	*%*
Water supply business	**159.22**	**31.34**	133.60	26.15	**63.92**	**32.06**	49.32	24.58
Sewage treatment business	**45.76**	**9.01**	47.03	9.20	**20.50**	**10.28**	23.07	11.50
Construction services business	**283.29**	**55.77**	324.66	63.54	**109.39**	**54.86**	124.42	61.99
Exploitation and sale of renewable energy business	**19.69**	**3.88**	5.67	1.11	**5.58**	**2.80**	3.88	1.93
Total	**507.96**	**100**	510.96	100	**199.39**	**100**	200.69	100

Water supply business

The water supply business are supported by 5 water supply plants located in various provincial cities across China including Jiangxi, Shandong and Hainan (2013: 6 water supply plants). The daily aggregate water supply capacity was approximately 1.91 million tonne (including the capacity of 1.60 million tonne of associated companies) generating a revenue of HK$159.22 million, representing 31.34% of the Group's total revenue. The gross profit ratio was 40.15% (2013: 36.91%). The increase in revenue and gross profit by HK$25.62 million and HK$14.60 million respectively were primarily due to the increase of water tariffs in Hainan Danzhou Water and Yingtan Water. The rates for the water supply ranged from HK$1.49 to HK$2.16 per tonne. During the year, the Company disposed the entire equity interests of Anhui Dang Shan Water Industry Company Limited* (安徽省碭山水業有限公司) ("**Dang Shan**") and 70% of equity interest of Super Sino Investment Limited ("**Super Sino**") together with its various wholly-owned subsidiaries ("**Super Sino Group**"). Following the disposal, the Company indirectly holds 30% equity interest in the Super Sino Group and Dang Shan ceased be a subsidiary of the Company.

Sewage treatment business

The sewage treatment business are supported by 3 treatment plants located in the Provinces of Jiangxi, Guangdong and Shandong. The daily aggregate sewage disposal capacity was approximately 130,000 tonne generating a revenue of HK$45.76 million, representing 9.01% of the Group's total revenue. The gross profit ratio was 44.80% (2013: 49.05%). The decrease in revenue and gross profit by HK$1.27 million and HK$2.57 million respectively were because of a newly imposed surcharge charged by the respective local government to Foshan City Gaoming Huaxin Sewage Treatment Company Ltd* (佛山市高明華信污水處理有限公司) ("**Foshan Gaoming**"), which was offset against revenues. The rates for sewage treatment ranged from HK$0.76 to HK$1.5 per tonne. During the year, Yichun Fangke Sewage Treatment Company Limited* (宜春市方科污水處理有限公司) ("**Yichun Fangke**") was approved by the relevant government authority to increase sewage treatment fee.

Construction services for water supply and sewage treatment infrastructure

Construction services included water meter installation, and pipeline construction and repair. These were the Group's major sources of revenue contributing HK$283.29 million, representing 55.77% of the Group's total revenue. The gross profit ratio was 38.61% (2013: 38.32%). The drop in revenue and gross profit by HK$41.37 million and HK$15.03 million respectively were due to the decrease of construction work including water meter installation in Yichun Water.

Exploitation and sale of renewable energy business

In recent years, the development of the green economy and environmental protection industry have become the core priorities for China's future economic reforms and long-term development. The Group has formed a new business expansion strategy in 2013, believing that the environmental protection industry in China continues to benefit from favorable national policies and the demand for environmental protection and alternative energy across the country continuing to grow which is providing the Group with enormous market and development opportunities. To capture these potential opportunities, the Group has actively been exploring in the areas of environmental friendly renewable energy business and has stressed that this business will be the next major investment. Up to 31 December 2014, the Group has successfully secured 7 biogas power generation projects which located in various provincial cities across China including Jiangsu, Hunan and Guangdong. These projects add a total of designed annual household waste processing capacity of 4.54 million tonne and could extract biogas from the household waste of 252 million m^3 annually which in turn could annually generate 113.78 million kilowatt of on-grid electricity and 59.60 million m^3 of compress natural gas ("**CNG**"). Upon the commencement of commercial operation, the following projects could bring new income stream to the Group.

	Project name	Business mode	Equity interest held by Company *(%)*	Annual designed household waste processing capacity *(tonne)*	Estimated annual biogas output *(m^3)*	Estimated annual On-grid electricity *(kilowatt)*	Estimated annual CNG *(m^3)*	Estimated Commencement date of operation	The expiration date of exclusive right to collect landfill gas
1	Nanjing Jiaozishan	Power generation	100	584,000	16,000,000	25,120,000	–	October 2013	June 2025
2	ZhuZhou Biogas	Power generation	100	365,000	12,000,000	14,000,000	–	November 2014	October 2023
3	Shenzhen Pingshan	Power generation	100	237,300	8,000,000	21,660,000	–	December 2015	September 2024
4	Changsha Operation Contract*	Power generation	–	1,825,000	80,000,000	53,000,000	–	May 2014	October 2039
5	Changsha Qiaoyi Landfill Site*	CNG	91			–	22,000,000	May 2015	
6	Shenzhen Xiaping Landfill Site	CNG	88	1,275,000	120,000,000	–	28,800,000	April 2015	April 2030
7	Qingshan Landfill Site	CNG	100	255,500	16,000,000	–	8,800,000	September 2015	July 2024
				4,541,800	252,000,000	113,780,000	59,600,000		

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

During the year, the revenue and gross profit contributed from Nanjing Jiaozishan project and ZhuZhou Biogas project were HK$19.69 million and HK$5.58 million respectively from selling electricity to provincial power grid companies and receiving tariff adjustment from a relevant government authority. The increase in revenue and gross profit by HK$14.02 million and HK$1.70 million respectively due to Nanjing Jiaozishan Project commenced full year operation in 2014. As Zhuzhou project was acquired in November 2014, there was only two months contribution provided by this project. The gross profit ratio was 28.34% (2013: 68.43%) and the average electricity rate is HK$0.80 per kilowatt.

Other Operating Income

For the year ended 31 December 2014, other operating income was HK$30.99 million (2013: HK$40.47 million). The income included mainly interest income of HK$19.23 million, consultancy fee of HK$5.75 million for the provision of advisory services on sewage treatment monitoring control system, disinfection handling fees of HK$1.44 million and rental income of HK$1.42 million from investment property.

Net gain on financial assets through profit or loss

Included in net gain on financial assets comprised HK$74.27 million for investment funds and HK$20.47 million for listed equity securities. During the year, the Company has invested in total of HK$105 million into two unlisted US dollar based investment funds ("**Funds**"). The Funds primarily invest in listed securities in the Asian market. The fair value of these unlisted financial assets are based on the net asset value ("**NAV**") of the Funds calculated on the last day of each calendar month and reported by the Fund manager accordingly. As at 31 December 2014, the change in fair value on these unlisted financial assets were HK$74.27 million (2013: Nil) which are solely on the gain of the NAV of the Funds. The Funds and listed equity securities are held for trading purpose and classified as current assets of the Group.

Gain on disposal of subsidiaries

Included in the gain on disposal of subsidiaries were the disposal of (i) 70% of the equity interests in the Super Sino Group together with 70% of the entire loan due to the Group and (ii) 100% equity interest of Dang Shan ("**Disposals**"). The net proceeds from the Disposals were HK$213.77 million and recorded a gain of HK$116.78 million (2013: Nil).

Gain on available-for-sale investments

Included in the disposal of financial assets were the equity investments in three listed equity securities in Hong Kong. During the year, the disposal of these listed securities were on-market transactions through The Stock Exchange of Hong Kong Limited ("**Stock Exchange**") and recorded a gain of HK$40.65 million (2013: HK$6.82 million).

Selling and distribution expenses and administrative expenses

For the year ended 31 December 2014, selling and distribution costs together with administrative expenses were collectively increased by HK$52.22 million to HK$175.59 million (2013: HK$123.36 million). The rise was mainly due to the acquisition and establishment of new companies in the PRC which caused the increment of staff cost and associated operating expenses. These expenses mainly consisted of staff costs of HK$96.18 million, legal and professional fees of HK$6.43 million, rent and rates of HK$7.26 million, repairs and maintenance of HK$3.40 million and depreciation of HK$11.55 million.

Finance costs

For the year ended 31 December 2014, the finance costs of the Group were HK$21.67 million, representing an increase of HK$6.32 million from HK$15.35 million for the same period of last year. The finance costs were mainly contributed by imputed interest of HK$43.40 million and the interest of HK$9.62 million on loans. The increase was mainly due to the imputed interest charged on the convertible bonds ("**CB**") issued by the Company in 2013 and 2014. Only the coupon interest, but not the imputed interest affects the actual cashflow of the Group.

Impairment loss recognised on available-for-sale investments

The impairment loss of HK$16.35 million arose from the prolonged decline in the fair value of the equity investments at the end of the reporting period being less than the investment cost (2013: Nil). The fair value of the listed securities are determined based on the quoted market bid prices available on the Stock Exchange.

Impairment loss recognized on goodwill

During the year ended 31 December 2014, the Group recognized an impairment loss on goodwill of HK$6.96 million which was provided for the acquisition of Foshan Gaoming (2013: Nil). The impairment loss incurred as the recoverable amount of Foshan Gaoming was determined to be less than the carrying amount of the net asset value including goodwill.

Share of results from associates

The Group had three associated companies, including 35% equity interests in Jinan Hongquan Water Production Co. Ltd (濟南泓泉制水有限公司) ("**Jinan Hongquan**"), 30% equity interest in Super Sino and 10% equity interests in Yu Jiang Hui Min Small Sum Loan Company Limited ("**Yu Jiang Hui Min**"). As at 31 December 2014, the Group shared the profit of HK$0.06 million (2013: loss of HK$2.27 million) which was mainly from the loss of HK$0.37 million from Jinan Hongquan and the profit of HK$0.43 million from Yu Jiang Hui Min respectively.

Income tax

For the year ended 31 December 2014, the income tax had increased by HK$15.10 million to HK$61.78 million (2013: HK$46.70 million). This was mainly due to the Hong Kong profits tax on the net gain on financial assets at fair value through profit or loss and the PRC income tax of HK$13.80 million charged on the gain on disposal of subsidiaries. In addition, certain subsidiaries such as Foshan Gaoming, Nanjing Feng Shang New Technology Limited Liability Company* (南京豐尚新能源科技有限公司) ("**Nanjing Feng Shang**") and Hunan Huiming Environmental Technology Limited* (湖南惠明環境科技有限公司) ("**Huiming Technology**") are entitled to have tax concessions benefit for the exemption to pay PRC income tax for three years for the first profit making year and followed by a 50% reduction for next three years. The PRC standard income tax rate is 25% in 2014.

Profit attributable to Owners of the Company

For the year ended 31 December 2014, profit attributable to owners of the Company was approximately HK$203.62 million (2013: HK$61.42 million.), grew by HK$142.20 million when compared to same period of last year.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2014, the Group recorded cash and bank balance including cash held at financial institutions of HK$324.07 million (compared with HK$250.56 million on 31 December 2013). The increase was mainly due to placing of new shares and issuance of Series B Bonds. With the steady cash flows, the Group will have sufficient working capital to meet its financial obligations in full as they fall due in the foreseeable future. The cash and bank balance were denominated in Hong Kong dollars and Renminbi.

The net current assets for the Group in 2014 were HK$446.81 million (2013: net current liabilities of HK$39.23 million). The improvement of current liquidity position of the Group was mainly attributable to the funds arising from placing of new shares, issuance of the Series B Bonds, gain on disposal of subsidiaries and gain on disposal of equity securities. The current ratio (current assets over current liabilities) is 1.92 times (2013: 0.91 times) as at 31 December 2014.

Net asset value was HK$1,269.99 million (2013: HK$826.50 million). Net asset per share was HK$0.95 (2013:HK$0.74), increased by 28.38% from the end of 2013.

The Group's consolidated non-current assets decreased by HK$75.96 million to HK$1,000.94 million (compared with HK$1,076.90 million on 31 December 2013). The decrease was mainly attributable to the disposal of subsidiaries and equity securities.

Total liabilities of the Group as at 31 December 2014 were HK$663.21 million (compared with HK$644.01 million on 31 December 2013). Total liabilities mainly comprised of the bank and other borrowings of HK$155.75 million (2013: HK$187.17 million), government grants of HK$19.24 million (2013: HK$95.98 million), trade and other payables of HK$157.95 million (2013: HK$157.46 million), Bonds of HK$103.52 million (2013: HK$107.35 million) and amounts due to non-controlling shareholders of HK$59.53 million (2013: HK$3.80 million). The decrease of government grants by HK$76.74 million was mainly due to government grants of HK$61.77 million repaid by Yichun Water and disposal of subsidiaries. Except for the Bonds which are denominated in HK$, borrowings were mainly denominated in Renminbi.

As at 31 December 2014, the Group's total bank and other borrowings decreased by HK$31.42 million to HK$155.75 million (2013: HK$187.17 million), mainly due to the disposal of subsidiaries. For the maturity profile, refer to the table below:

Debt Analysis

	31 December 2014		31 December 2013	
	HK$'000	**%**	*HK$'000*	%
Classified by maturity				
– repayable within one year				
Bank borrowings	**49,258**	**31.63**	42,116	22.50
Other loans	**13,619**	**8.74**	65,722	35.11
	62,877	**40.37**	107,838	57.61
Classified by maturity				
– repayable more than one year				
Bank borrowings	**33,598**	**21.57**	26,710	14.27
Other loans	**59,270**	**38.06**	52,619	28.12
	92,868	**59.63**	79,329	42.39
Total bank and other borrowings	**155,745**	**100**	187,167	100
Classified by type of loans				
Secured	**50,518**	**32.44**	63,739	34.05
Unsecured	**105,227**	**67.56**	123,428	65.95
	155,745	**100**	187,167	100
Classified by type of interest				
Fixed rate	**44,490**	**28.57**	77,472	41.39
Variable-rate	**62,014**	**39.81**	61,898	33.07
Interest free rate	**49,241**	**31.62**	47,797	25.54
	155,745	**100**	187,167	100

The Group's gearing ratio as at 31 December 2014 was 34.31% (2013: 43.80%). The ratio was calculated by dividing total liabilities of HK$663.21 million over total assets of the Group of HK$1,933.20 million.

TRADE AND OTHER RECEIVABLES

As at 31 December 2014, the Group's trade and other receivables were approximately HK$171.68 million (31 December 2013: HK$108.36 million). These comprised of: (i) trade receivables of HK$30.25 million, (ii) consideration receivable relating to the disposal of Super Sino Group of HK$88.30 million, (iii) other receivables of HK$11.44 million, (iv) loan receivable of HK$15.00 million and (v) deposits and prepayments of HK$26.69 million. During the year, the trade receivables slightly decreased by HK$2.93 million to HK$30.25 million. The average turnover period of the trade receivables as at 31 December 2014 were 28 days (2013: 25 days). The Group allows a credit period of 30 to 180 days to its customers. The average turnover period of the trade receivables were shorter than the stipulated credit period. Other receivables represented advances to staff and unrelated parties which were unsecured, interest free and repayable on demand. Loans receivable of HK$15.00 million at 31 December 2014 was a loan to an unrelated party which was unsecured, interest bearing at 36% and repayable on demand. The deposits and prepayments increased by HK$7.69 million to HK$26.69 million (2013: HK$19.00 million), which was mainly contributed by tender deposits. Subsequent to 31 December 2014, the Company has received HK$65.13 million from Guangdong Water Group (HK) Limited ("**Guangdong Water**") to settle the consideration receivable. The remaining receivable balance will be settled by mid June 2015. The tender deposit of HK$13.62 million was refunded due to the unsuccessful tender bid.

INVENTORIES

As at 31 December 2014, inventories of HK$184.04 million (31 December 2013: HK$24.58 million) comprised of (i) properties under development for sale of HK$146.08 million, raw materials of HK$37.56 million and finished goods of HK$0.40 million. Properties under development for sale represented the construction of new commercial buildings for sale by Yingtan Xiang Rui Property Limited* (鷹潭祥瑞置業有限公司) ("**Xiang Rui Property**") at Yingtan, Jiangxi Province, the PRC, an indirect non wholly-owned subsidiary of the Company. The construction has commenced in February 2014 and is expected to be completed on or before 30 December 2015. This project made the inventories substantially increase by HK$159.46 million as comparing with prior year.

TRADE AND OTHER PAYABLES

As at 31 December 2014, the Group's trade and other payables were approximately HK$157.95 million (31 December 2013: HK$157.46 million). The credit terms of trade payables vary according to the terms agreed with different suppliers.

CAPITAL RAISING AND USE OF PROCEEDS

I. Issue of Convertible Bonds

On 16 October 2013, the Company, Prosper Talent Limited and the Subscriber entered into the Subscription Agreement in respect of the issue of and subscription for the CB to issue in two tranches in an aggregate principal amount of HK$200 million in cash, comprising of the Series A Bonds and the Series B Bonds. Assuming full conversion of the CB at the initial conversion price of HK$1.65 per share, a total of 121,212,120 shares will be allotted and issued under the general mandate. Following the completion of placing on 12 June 2014, the conversion price of the CB has been adjusted from the initial conversion price of HK$1.65 per share ("**Initial Conversion Price**") to HK$1.57 per share ("**Adjusted Conversion Price**") with effective 12 June 2014. The maximum number of shares issuable by the Company upon full conversion of the CB at the Adjusted Conversion Price will be 127,388,534 share. The purpose of use of proceed is for investment in, establishment and operation of water supply companies, sewage treatment companies and solid waste treatment companies only. Series A Bonds and Series B Bonds were issued on 30 October 2013 and 14 January 2014 respectively. The maturity date of CB will be expired of one year from the date of issue of the CB. Thus, the maturity falling for Series A Bonds and Series B Bonds will be due on 30 October 2014 and 14 January 2015 respectively, bears annual interest at 7.5% and, on maturity, the bond will be redeemed at an aggregate price of 100% of the outstanding principal amount plus an interest of 12% per annum, less the interest amount already paid on the CB. The net proceeds have been fully utilized by the Company as to (i) approximately HK$46.80 million for the establishment of a wholly-owned investment company named Greenspring (Nanjing) in Nanjing to acquire waste power generation and CNG business; (ii) approximately HK$19.80 million for the increase in the registered share capital of a wholly-owned subsidiary of the Company in Shenzhen which engages in the business of water supply and sewage treatment; (iii) approximately HK$46.80 million for the establishment of a wholly-owned investment company named Swan (Huizhou) Investment Company Limited (鴻鵠（惠州）投資有限公司) ("**Swan (Huizhou)**") in Huizhou to acquire renewable energy businesses; (iv) approximately HK$45.23 million for the first and second payments to acquire 88% equity interest in Shenzhen Li Sai as announced by the Company on 23 January 2014; (v) approximately HK$38.37 million for the formation of JV Company in Changsha and the first payment for the acquisition of Huiming Technology as announced by the Company on 21 March 2014. On 30 October 2014 and 14 January 2015, the Company has fully redeemed Series A Bonds and Series B Bonds, in accordance with their terms of Bonds Instrument (the "**Redemption of Bonds**"). Following the Redemption of Bonds, the Company has no outstanding Convertible Bonds.

II. Placing of New Shares of The Company

On 30 May 2014, the Company entered into the placing agreement with placing agent, pursuant to which, the Company had through placing agent to place out 222,000,000 new ordinary shares at placing price of HK$1 each to independent third parties. The transaction was completed on 12 June 2014. The net proceeds from the Placing was approximately HK$216.4 million which have been fully utilized by the Group as to (i) approximately HK$60 million for the increase in the registered share capital of Greenspring (Nanjing); (ii) approximately HK$100 million for the repayment of Series A Bonds; (iii) approximately HK$30.52 million for the final payment to acquire Shenzhen Li Sai; and (iv) approximately HK$25.48 million for general working capital of the Group including office operating expenses and repayment of CB interests.

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

During the year, the Group incurred capital expenditures amounting to HK$58.83 million (2013: HK$102.37 million) for acquisition of concession intangible assets.

LITIGATIONS AND ARBITRATION

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

On 30 May 2007, a Petition was filed under sections 168A and 177 of the predecessor Company Ordinance (Cap. 32) to windup Technostore Limited ("**Technostore**"), a company in which the Company held 50.01% of the issued shares. The Petition was commenced by Mr. Mao Chi Fai ("**Mr. Mao**"), the minority shareholder of Technostore holding 49.99% of the issued shares. Following court hearings regarding the winding-up proceeding in the preceding year, on 29 August 2008, the court made an order to appoint Kenny Tam & Company ("**Liquidator**"), Certified Public Accountant as a liquidator of Technostore and Happy Hour Limited and Mr. Mao to become members in the committee of inspection. In October 2009, all stocks of Technostore with costs valued at approximately HK$2.2 million transferred by the Official Receiver's Office to the Liquidator were disposed at the consideration of around HK$0.62 million by public tender. Preferential and ordinary dividends were distributed in November 2010. Further, a sum of less than HK$1,000 was realized from the bank accounts of Technostore. On 25 August 2011, the Liquidator indicated that no additional assets of Technostore have been realized and it anticipates that there will be no further assets for realization. The Liquidator has further indicated that it will apply to the Court for his release as the liquidator of Technostore after the determination of a validation order. On 29 February 2012, the Liquidator further advised that there was no additional assets realization since 25 August 2011. The Liquidators also advised that they are preparing an application for validation order and will file their release application pending sanction of the validation order by the Court. On 11th August 2012, the Liquidator also advised that they are in the course of preparing the application of the validation order. As at 11th August 2012, the Liquidator advised that the amount of the said validation order should be within HK$0.4 million. On 9th March 2013, the Liquidator advised that the said application of the validation order will not be pursued as there is no benefit to the creditors for taking further action on the same. The Liquidator also advised that, as a consequence, there will be no further outstanding assets to be handled and the Liquidator will proceed to make an application to the court for his release. As at 16 August 2013, the Liquidator informed the Company that it is presently not in position to make an application to the High Court to release the duty of Liquidator as the necessary documents from Mr. Mao not yet to receive. On 30 January 2014, advised by the Liquidator that the High Court would approve the application of releasing Liquidator and dissolution of Technostore within the next three months. On 25 July 2014, High Court issued the court order to confirm that Technostore was dissolved and the Liquidator was released on 2 July 2014. On 1 August 2014, Liquidator had published the notice on Gazette relating to the release of his duty. The directors of the Company believe that no material future outflows resources from the Group is expected and sufficient provision on assets related to Technostore have been provided. It is unlikely that there will be a material adverse financial impact of the Group.

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

On 21 August 2012, the Company and its subsidiary of Swift Surplus Holdings Limited ("**Swift Surplus**") (collectively as the "Lenders") entered into repayment agreements (the "**Repayment Agreements**") with the Sihui Sewage Treatment Co. Ltd.* (四會市城市污水處理有限公司) and Top Vision Management Limited ("**Top Vision**") (collectively as the "**Borrowers**") together with their respective guarantors, pursuant to which, the Borrowers shall repay to the Lenders the loan receivables of approximately HK$58.43 million together with interest accrued thereon (the "**Loan Receivables**"). HK$5 million of the Loan Receivables will be repaid on or before 30 September 2012 and the remaining Loan Receivables shall be repaid on or before 31 December 2012. On 29 August 2012, the Company only received HK$5 million of the Loan Receivables. However, the remaining Loan Receivables of HK$53.43 million (the "Remaining Loan Receivables") plus underlying interests were not yet received on 31 December 2012. (the "**Remaining Loan Receivables**"). On 22 March 2013, the Lenders have entered into supplemental deeds with the Borrowers together with their respective guarantors, pursuant to which, approximately HK$18.03 million of the Remaining Loan Receivables and underlying interests shall be repaid to the Lenders on or before 21 March 2014 (the "**Partial Payment of the Remaining Loan Receivables**"). Nevertheless, Swift Surplus and Top Vision and its guarantors could not reach an agreement in respect of the terms and date of the repayment of the outstanding balance of HK$35.40 million of the Remaining Loan Receivables and underlying interests (the "**Outstanding Balance**"). Despite the Company several requests and demands, Top Vision failed to effect payment of the Outstanding Balance. On 14 May 2013, the Company instructed its legal counsel to file the writ of summons (the "**Writ**") to the High Court of Hong Kong Special Administrative Region (the "**High Court**") to recover the Outstanding Balance from Top Vision. On 25 June 2013, the High Court adjudged a final judgment that Top Vision shall pay the Outstanding Balance to Swift Surplus (the "**Final Judgement**"). Top Vision has not performed the repayment obligation under the judgment issued by the High Court. The Company cannot locate any asset of Top Vision in Hong Kong. As advised by the legal counsel, without information on the assets of Top Vision in Hong Kong, the Company cannot enforce the Final Judgment against Top Vision. As the major assets owned by the subsidiaries of Top Vision are located in Guangdong Province, the PRC, the Company had undertaken recovery actions including but not limited to legal actions taken in PRC to collect the Remaining Loan Receivables. As advised by the PRC lawyer, the Final Judgment relating to the settlement of HK$35.40 million by Top Vision to Swift Surplus could not be executed in Mainland China because the Repayment Agreements stated that "Parties of the Repayment Agreements irrevocably consent that the Courts of the HKSAR will have the non-exclusive jurisdiction to solve any disputes which may be caused or are caused by the Repayment Agreements". The PRC lawyer considered that the non-exclusive jurisdiction stated in the Repayment Agreement does not comply with PRC law. Therefore, the PRC lawyer further reckoned that the Final Judgment will be neither recognized nor executed by Zhaoqing Intermediate People's Court.

On 20 August 2014, a petition was filed by Galaxaco Reservior Holdings Limited ("**Galaxaco**") to wind up Top Vision, one of the creditors of Top Vision. Top Vision has now been wound up by the High Court by a Winding-up Order under Companies Winding-up Proceedings No.157/2014 and the first meeting of creditors of Top Vision was held on 30 October 2014 for the appointment of provisional of liquidator. On 14 January 2015, the solicitors act for Galaxaco requested the High Court to have the hearing adjourned for the appointment of liquidators (the "**Appointment**") pending the alleged negotiation settlement between Top Vision and all creditors including the Company and its subsidiary of Swift Surplus and Galaxaco. The High Court hearing for the Appointment will be held on 4 May 2015. Although Top Vision was in liquidation, the Company has instructed its legal counsel to undertake the arbitration in Hong Kong to chase back the Remaining Loan Receivables and the underlying interests from the respective guarantors. As at 31 December 2013 and 2014, the loan receivables from Top Vision of HK$43.60 million were fully impaired. The Board believed that no significant financial impact will be affected on the Group as sufficient impairment loss on the Loan Receivables has been provided.

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

Guangzhou Hyde Environmental Protection Technology Co. Ltd.* (廣州市海德環保科技有限公司) ("**Guangzhou Hyde**") (an indirect wholly-owned subsidiary of the Company) and Yunnan Chaoyue Gas Company Limited* (云南超越燃氣有限公司) ("**Yunnan Chaoyue Gas**") entered into the cooperation contract dated 13 October 2010, pursuant to which Guangzhou Hyde shall paid a refundable deposit of HK$10 million ("**Deposit**") to Yunnan Chaoyue Gas for the purpose of obtaining the operation and management right of the Yunnan Dian Lake project ("**Project**").

Pursuant to the cooperation contract, Yunnan Chaoyue Gas shall refund the Deposit to Guangzhou Hyde within nine months once it was unsuccessfully to obtain the Project. Yunnan Chaoyue Gas has failed to repay the aforesaid Deposit to Guangzhou Hyde when it fell due despite Guangzhou Hyde's repeated requests and demands.

The Deposit was classified as loan receivable and fully impaired in 2011.

The dispute over cooperative contract between Guangzhou Hyde and Yunnan Chaoyue Gas was applied to Guangzhou Arbitration Commission ("**Guangzhou Commission**") for arbitration on 24 February 2012. The Commission accepted the case and started a trail on 5 June 2012. After the trail, arbitration tribunal ruled an award on 12 June 2012, adjudging that Yunnan Chaoyue Gas should pay Guangzhou Hyde the principal of RMB8.56 million and overdue interests thereon; and the relevant arbitration fees.

The above award confirmed the amount to be paid by Yunnan Chaoyue Gas to Guangzhou Hyde should be settled in one-off manner within 10 days from the date on which this award is served. Late payment will result in proceedings set out in article 229 of Civil Procedure Laws of the People's Republic of China. As Yunnan Chaoyue Gas has not performed repayment obligation under the award on time, Guangzhou Hyde applied to Kunming Intermediate People's Court (the "**Kunming Court**") for civil enforcement on 21 July 2012, and Kunming Court has accepted such application.

On 13 May 2013, Yunnan Chaoyue Gas provided loan repayment plan (the "**Repayment Plan**") to Guangzhou Hyde. Owing to without information of the assets owned by Yunnan Chaoyue Gas and given the Repayment Plan, Kunming Court has stopped to execute the civil enforcement. Notwithstanding, the Company has reserved its right to petition the Kunming Court to resume the enforcement proceeding once locating any assets owned by Yunnan Chaoyue Gas in PRC. Up to the annual report date, Yunnan Chaoyue Gas has not performed the repayment obligation according to the Repayment Plan. The aforesaid litigation is unlikely to have any significant material adverse financial impact on the Group.

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

MAJOR EVENTS DURING THE YEAR UNDER REVIEW

A(I): Acquisition of Biogas Power Generation Projects:

a. Acquisition of Shenzhen Xiaping Landfill Site Project

On 23 January 2014, Greenspring (Nanjing) entered into the Sale and Purchase Agreement with Mr. Huang Han Jian and Ms. Xiao Ying for the purpose of acquiring approximately 88% of the issued share capital of the Shenzhen Li Sai at an aggregate consideration of RMB59,840,000. Shenzhen Li Sai obtained the exclusive operation rights for the project of conversion of the Shenzhen Xiaping Landfill Site into CNG in the Shenzhen Xiaping Landfill Site for a term of 17 years until 1 April 2030. In addition, Shenzhen Li Sai has also entered into a purchase and sale agreement of gas in related to the conversion of the landfill gas into CNG with Shenzhen Gas Corporation Ltd. The acquisition was completed in August 2014.

b. Acquisition of Zhuzhou Biogas Project

On 21 March 2014, Greenspring (Nanjing) entered into the Sale and Purchase Agreement with Hunan Huiming Environmental Energy Limited* ("**Hunan Huiming**") (湖南惠明環保能源有限公司) and Mr. Huang Jian Xin* (黃建新) to acquire the entire issued share capital of Hunan Huiming Environmental Technology Limited ("**Huiming Technology**") for a consideration of RMB15,000,000. Huiming Technology currently possesses of a waste landfill biogas resource utilization project in Zhuzhou (the "**Zhuzhou Biogas Project**") and has the right for the exclusive use of all the biogas resources from the waste landfill sites in the city of Zhuzhou for a period until 1 October 2023. The acquisition was completed in November 2014.

c. *Acquisition of Liuyang Biogas Project*

On 21 March 2014, Greenspring (Nanjing) entered into the Sale and Purchase Agreement with Hunan Huiming and Mr. Huang Jian Xin* (黃建新) to acquire the entire issued share capital of Hunan Feng Ming Energy Technology Limited* (the "**Feng Ming Technology**") (湖南豐銘能源科技有限公司) for an aggregate consideration of RMB3,000,000. Feng Ming Technology is principally engaged in (i) the development of eco-products; (ii) research and development of new energy sources. Feng Ming Technology currently possesses of a solid waste disposal sites biogas resource utilization project in Liuyang (the "**Liuyang Biogas Project**"). As the conditions for completion have not been fulfilled by the Vendors, the Group has not paid any consideration and the acquisition is not completed.

d. *Formation of Joint Venture Company for Changsha Qiaoyi Landfill Site Project*

On 21 March 2014, Greenspring (Nanjing) and Hunan Huiming entered into the JV Agreement pursuant to which Greenspring and Hunan Huiming have agreed to establish the JV Company which will be owned as to 91% by Greenspring (Nanjing) and as to 9% by Hunan Huiming. Pursuant to the terms of the JV Agreement, the registered capital of the JV Company will be RMB30,000,000. Pursuant to the Changsha Contracts, Hunan Huiming has been granted the exclusive rights to operate and utilize the landfill gas collected from the solid wastes in the Changsha Qiaoyi Solid Waste Landfill Site* (長沙橋驛固體廢棄物填埋場) ("**Changsha Qiaoyi Landfill Site**") for an exclusivity period of 35 years expiring on 10 October 2039. Apart from the landfill gas resources which has been exploited for the operation of the power plants owned by Hunan Huiming, other landfill gas resources in the Changsha Qiaoyi Landfill Site are not yet exploited and utilized (the "**Unexploited Landfill Gas Resources**"). The JV Company will be established for carrying out the purification process and exploitation of the Unexploited Landfill Gas Resources. Hunan Huiming agreed to transfer the exclusive rights relating to the operation and utilization the Unexploited Landfill Gas Resources to the JV Company at RMB23,000,000. The Group has paid its registered capital of RMB27.00 million and the JV Company named Changsha Huiming Recycling Resources Technology Limited* (長沙惠明再生資源科技有限公司) has been formed in April 2014.

e. *Acquisition of Qingshan Landfill Site Project*

On 26 July 2014, Greenspring (Nanjing) entered into a outsource procurement contract for landfill gas detoxification, deodorization and resources recycling project in the Qingshan Municipal Solid Waste Landfill Site in Qingyuan with the Solid Waste Management Centre of Qingyuan City* (清遠市固體廢棄物管理中心) ("**Qingyuan Management Centre**"). Qingyuan Management Centre has awarded Greenspring (Nanjing) the exclusive right for the collection and exclusive and comprehensive utilization of landfill gas in Qingshan Municipal Solid Waste Landfill Site* (青山城市生活垃圾衛生填埋場) ("**Qingshan Landfill Site**") for power generation, compression and purification, production of automobile gas and residential natural gas or for other purposes for a period of 10 years until 25 July 2024 at nil consideration. In September 2014, Greenspring (Nanjing) has formed a company named Qingyuan City Greenspring Environmental Technology Limited* 清遠市青泓環保科技有限公司 to carry out construction works and production in Qingshan Landfill Site.

f. Acquisition of Shenzhen Pingshan Project

On 16 September 2014, Pingshan New District City Administration Bureau* 坪山新區城市管理局 ("**Pingshan Administration Bureau**") and Greenspring (Nanjing) entered into an innocuous deodorization and resource recycling utilisation agreement for the garbage gas at Yahu Household Garbage Landfill Site in Pingshan New District ("**Shenzhen Pingshan Project**"). Pingshan Administration Bureau has engaged Greenspring (Nanjing) to collect and conduct innocuous deodorization treatment for all garbage gas generated from Yahu Landfill* (鴨湖填埋場) ("**Yahu Landfill Site**"). Greenspring (Nanjing) has the right to conduct comprehensive resource recycling utilisation for the garbage gas collected and obtain benefits therefrom. The comprehensive utilisation methods include but not limited to power generation, compression and purification, generation of vehicle gas and civil gas and other utilisation methods. During the term of this contract, Pingshan Administration Bureau will transfer all the garbage gas generated from Yahu Landfill Site to Greenspring (Nanjing) at no consideration for its exclusive collection with proprietary gaining right. Greenspring (Nanjing) is responsible for the investment and construction of the biogas power generation plant for the Shenzhen Pingshan Project. Its power generation capacity is 3,000 kilowatt per hour and the term of this contract is 10 years until 15 September 2024. In September 2014, Greenspring (Nanjing) has formed a project company named Shenzhen City Greenspring Recycling Resources Technology Limited* （深圳市青泓再生資源科技有限公司） to carry out construction works and production in the Yahu Landfill Site.

A(II). Changsha Operation Contract

On 21 March 2014, Hunan Huiming and Nanjing Fengshang entered into an operation guarantee service cooperation contract ("**Operation Contract**"). Hunan Huiming has the exclusive right to use the landfill gas resources at Changsha Qiaoyi Landfill Site. It has constructed and is operating a garbage landfill gas power generation plant at Changsha Qiaoyi Landfill Site. The plant has a total of 6 generator set units with a total capacity of 8,000 kilowatt per hour. According to the Operation Contract, Nanjing Fengshang has sub-contracted these 6 generator set units at its own costs and expenses. Under the circumstance that the garbage landfill volume at Changsha Qiaoyi Landfill Site is no less than 5,000 tons/day and is in normal landfill operation, Nanjing Fengshang shall ensure that the total annual power generation capacity of Hunan Huiming's in-house generator sets shall not be less than 53,000,000 kilowatt ("**Guaranteed Annual Capacity**") during the operation period. If the power generation capacity is higher or lower than the Guaranteed Annual Capacity, according to the Operation Contract, a premium will be awarded for any surplus over the Guaranteed Annual Capacity, while a penalty will be made for any shortfall below the Guaranteed Annual Capacity. Hunan Huiming shall pay Nanjing Fengshang RMB0.334 per kilowatt as service fee for the operation. The operation period is from the effective date of this contract to 10 October 2039.

B: Disposal of subsidiaries of the Company

I. Disposal 70% equity interest of Super Sino Investment Limited

On 15 September 2014, Billion City Investments Limited ("**Billion City**"), a direct wholly-owned subsidiary of the Company, the Company as Guarantor and Guangdong Water Group (H.K.) Limited ("**Guangdong Water**") entered into the Sale and Purchase Agreement ("**Agreement**") for the purpose of disposal 70% of the entire issued share capital of the Super Sino Group, and 70% of the entire loan due to Billion City by Super Sino as at the date of the Agreement, at an aggregate consideration of RMB175 million (equivalent to approximately HK$221.02 million) ("**Initial Consideration**") subject to the price adjustment. Before the disposal, Super Sino has held 100% equity interest of Danzhou Water, Danzhou Lian Shun Tong Water Pipe Company Limited and Danzhou QingQuan Water Testing Company Limited. The disposal of Super Sino Group was completed in December 2014. Up to the date of this annual report, Guangdong Water has paid 90% of Initial Consideration to Billion City ("**90% of net proceeds**") and the remaining balance will be paid the end of 6 months upon the completion of disposal. After completion of the disposal, the Company holds 30% of the entire issued share capital of the Super Sino Group which becomes an associate of the Company. The 90% of net proceeds of HK$201.10 million has been utilized by the Group as to (i) approximately HK$108 million for the repayment of Series B Bonds and CB interest; and (ii) approximately HK$50.70 million for the increase of registered capital in Swan (Huizhou). The unutilized net proceeds of HK$42.40 million are held in bank for future use.

II. Disposal of 100% equity interest of Anhui Dang Shan Water Industry Company Limited

On 22 September 2014, Super Sino and Dang Shan Construction Investment Limited Co.* (碭山縣建設投資有限公司) ("**Dang Shan Construction**") entered into an agreement for the purpose of disposing the entire issued share capital of Dang Shan for a consideration of RMB1. The disposal was completed in November 2014. Upon completion of the disposal, Dang Shan ceased be a subsidiary of the Company.

C: Termination of Acquisition of Yingtan City Run De Property Company Limited

On 19 March 2014, Jiangxi Shunda Construction Engineering Limited* (江西省順大建築安裝工程有限公司) ("**Jiangxi Shunda**"), an indirect wholly-owned subsidiary of the Company, entered into the Sale and Purchase Agreement ("**S&P agreement**") with Mr. Dong Gao Zhong* (董高忠) and Mr. Chen Su Jiang* (陳蘇江) for the purpose of acquiring approximately 80% of the issued share capital of the Yingtan City Run De Property Company Limited* (鷹潭市潤德置業有限公司) ("**Run De Property**") for an aggregate consideration of RMB30,000,000. Run De Property is principally engaged in the property development and sales of the Xinduhui Real Estate Project* ("新都滙房地產項目") (the "**Project**") in Guixi, the PRC. Upon the signing of the S&P agreement, the Company had performed the due diligence review on the Run De Property and concluded that it was unsatisfied with the results of the due diligence review. On 30 December 2014, Jiangxi Shunda and the vendors have reached mutually agreement to terminate the S&P Agreement.

FOREIGN EXCHANGE RISK

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

CAPITAL COMMITMENTS

As at 31 December 2014, the Group has the capital commitments contracted but not provided for acquisition of land approximately HK$nil (2013: HK$52.80 million), the acquisition of property, plant and equipment approximately HK$92.39 million (2013: HK$83.80 million) and properties under development in relation to development costs of existing projects of HK$26.65 million (2013: HK$nil).

CONTINGENT LIABILITIES

During the year, the Company has issued a guarantee to a bank in respect of a bank borrowing made by a wholly owned subsidiary which expires on 26 September 2019. As at 31 December 2014, the maximum liability of the Company relating to the aforesaid guarantee issued is the outstanding amount of the bank borrowing of the wholly owned subsidiary of HK$15,128,000 (2013: HK$nil).

PLEDGE OF ASSETS

The Group's bank loans and other loans of HK$82.86 million in total as at 31 December 2014 (2013: HK$75.19 million) were secured by charges over:

(i) property, plant and equipment in which their carrying amount was HK$0.75 million (2013: HK$1.03 million);

(ii) properties under development with a carrying amount of approximately HK$146.08 million (2013: HK$nil) have been pledged to secure a personal loan granted to Zhou Ping Hua, a non-controlling shareholder of a subsidiary of the Company.

NO MATERIAL CHANGE

Save as disclosed above, during the year ended 31 December 2014, there has been no material change in the Group's financial position or business since the publication of the latest annual report of the Company for the year ended 31 December 2013.

EMPLOYEES

As at 31 December 2014, excluding jointly controlled entities and associates, the Group had 1,002 (2013: 1,138) employees, of which 10 (2013: 9) are Hong Kong employees. During the year, total employee benefit expenses, including directors' emoluments and provident funds, was HK$119.30 million (2013: HK$88.93 million). Employees were remunerated on the basis of their performance and experience. Remuneration packages include salary and a year-end discretionary bonus, which are determined with reference to the Group's operating results, market conditions and individual performance. Remuneration packages are normally reviewed as an annual basis by the Remuneration Committee. During the year, all of the Hong Kong employees have participated in the Mandatory Provident Fund Scheme, and a similar benefit scheme is offered to employees in Mainland China. In addition, the Group encourage employees' participation in continuing training programmes, seminars and e-learning through which their career, knowledge and technical skills can be enhanced with the development of individual potentials.

DIRECTORS

Executive Directors

Mr. Wang De Yin ("Mr. Wang"), aged 52, was appointed as an executive Director of the Company and the Chairman in August 2011. He was also appointed as a Chief Executive Officer of the Company in July 2012. Mr. Wang graduated from Xidian University with a bachelor's degree in Computer Engineering. Before joining the Company, Mr. Wang had over 26 years of experience in information technology and business restructuring. He led various scientific research projects and won various awards during his service with Maanshan Iron and Steel Design and Research Institute of The Ministry of Metallurgical Industry. He had been the chairman and president of Shenzhen Modern Computer Company Limited and founder and managing director and chief executive officer of Shenzhen Hornson Science and Tech. Company Limited. From 2005 to 2009, he served as the managing director and general manager of Tibet Urban Development and Investment Co., Ltd. (formerly known as Tibet Jinzhu Co., Ltd.) (Shanghai Stock Exchange stock code: 600773), during which, he undertook business restructuring of the company and launched a series of effective reforms and innovative measures, which prepared the company for the asset restructuring that followed.

Mr. Lin Yue Hui ("Mr. Lin"), aged 44, was appointed as an executive Director of the Company in August 2011. He is currently a partner of Guanghe Law Firm. Mr. Lin subsequently obtained a Certificate of Graduation from Doctoral Program from China University of Political Science and Law. Mr. Lin was granted the PRC lawyer's qualification certificate in 2001. Before joining the Company, Mr. Lin had accumulated 17 years of experience in the law profession, his area of practice includes litigation matters involving acquisitions and mergers, real estate, economic disputes etc. He had also been a legal consultant of various companies.

Mr. Liu Feng ("Mr. Liu"), aged 53, was appointed as an executive Director of the Company in August 2011. Mr. Liu graduated from Guangdong Provincial Party School majoring in Economics and subsequently attained postgraduate qualification. Before joining the Company, he had accumulated over 30 years of experience in the banking, finance and property sectors, including the posts of section chief and deputy governor of Foshan Commercial Bank and held directors and senior posts in various investment companies.

Ms. Chu Yin Yin, Georgiana ("Ms. Chu"), aged 44, was appointed as the executive Director and Company Secretary of the Company in October 2006 and November 2006 respectively. Ms. Chu holds a Bachelor's Degree of Business Administration in Accountancy and a Master's Degree of Corporate Governance. She is a fellow member of both the Hong Kong Institute of Certified Public Accountants, the Association of the Chartered Certified Accountants and a member of the Institute of Chartered Accountants in England and Wales. Ms. Chu is also a fellow member of both the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Company Secretaries. Prior to joining the Company, she has over 16 years' extensive experience by working in an international audit firm and other listed companies.

Ms. Deng Xiao Ting ("Ms. Deng"), aged 41, was appointed as an executive Director of the Company in July 2012. Ms. Deng is currently the chairman of Huizhou Honghu Industrial Development Co., Ltd.*(惠州市鴻鵠實業發展有限公司). She has once served as a national civil servant at Huizhou Public Security Bureau. Ms. Deng graduated from Jinan University, majoring in Accounting and subsequently graduated from the Party School of the Central Committee of C.P.C. with a major in law. Ms. Deng is the sister of Mr. Deng Jun Jie who is the beneficial owner of Honghu Capital Co. Ltd. ("Honghu Capital"). Honghu Capital is the substantial shareholder of the Company.

Independent non-executive Directors

Mr. Guo Chao Tian ("Mr. Guo"), aged 69, was appointed as an independent non-executive Director of the Company in June 2012. Mr. Guo is currently the chairman and general manager of Shenzhen Jianling Investment and Development Co., Ltd (深圳市建瓴投資發展有限公司). He is also an independent director of China Jingu International Trust Co., Ltd (中國金穀國際信託有限責任公司). Mr. Guo holds a bachelor degree and a master degree of Economics from Peking University. Before joining the Company, Mr. Guo had more than 28 years of experience in economic analysis and investment. He was the deputy head of the Administrative Department of the Institute of Economics Chinese Academy of Social Science and the head of the Real Estate Department of the Academy. He was accredited as a senior economist by China Rural Trust and Investment Corporation (中國農村信託投資有限公司) and he was a general manager of the Real Estate Department and a general manager of Urban Property Management of the Corporation.

Mr. Li Jian Jun ("Mr. Li"), aged 36, was appointed as an independent non-executive Director of the Company in September 2012. Mr. Li is currently a director of Silver Trend International Industrial Limited. Mr. Li holds a Bachelor Degree in Physics from the South China Normal University. Since July 2000, Mr. Li has held various positions, namely senior engineer of core technology and director, in GP Electronics (Huizhou) Co., Ltd. in Hong Kong and Celestion International Limited, KEF International Limited and Will State Limited in the UK. Mr. Li has almost 10 years of experience in the development of electroacoustic products and management of large-scale enterprises.

Mr. Wong Siu Keung, Joe ("Mr. Wong"), aged 50, was appointed as an independent non-executive Director of the Company in October 2012. Mr. Wong is currently an Independent Non-executive Director of Computech Holdings Limited which is listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (stock code: 8081). Mr. Wong holds a Degree of Master of Arts in International Accounting from City University of Hong Kong. He is an associate member of Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Wong has extensive experience in taxation, accounting, financing, audit field and public listed companies for many years.

SENIOR MANAGEMENT OF THE GROUP

Mr. Tang Hui Ping, Paul ("Mr. Tang"), aged 60, resigned as an executive Director in July 2012 but remains as a Chief Internal Auditor and a Deputy General Manager since 2009. Mr. Tang holds a Bachelor Degree in Accountancy from the South Central University of Finance & Economic, Politics & Law, China and a Master's Degree in Business Administration from the Oklahoma City University, United States of America. He is a member of Certified Management Accountant of Australia in 2000. Mr. Tang has more than 28 years extensive experience in the finance & accounting field in the PRC, Hong Kong and Canada.

Mr. Liu Hui Quan ("Mr. Liu"), aged 52, was appointed as a Deputy General Manager of the Company in January 2012. Mr. Liu holds a Master's Degree in Business Administration from Honolulu University, United States of America. Before joining Company, Mr. Liu has over 10 years extensive experience in the human resource management in the PRC.

Mr. Li Jian Ping ("Mr. Li"), aged 49, was appointed as a deputy general manager of the Company in August 2013. Mr. Li is an expert of the solid waste treatment and the renewable resource power generation in Mainland China. He has long been engaged in the construction of landfill gas power generation projects and the relevant operational management works. Mr. Li has over 10 years extensive experience in the investment and utilization of renewable resources.

Ms. Zhang Chun Li ("Ms. Zhang"), aged 41, was appointed as the finance manager of the Company in April 2013. In January 2014, Ms. Zhang had been promoted to the financial controller of the Company. Ms Zhang graduated from the Institute of Changsha Traffic with the major in accounting. She is an associate member of the Chinese Institute of Certified Public Accountant. Before joining the Group, she had accumulated over 10 years of extensive experience in the financial accounting and management accounting.

Mr. Xu Huan Xiong ("Mr. Xu"), aged 53, was appointed as a deputy general manager of the Company in October 2014. Mr. Xu is a leading expert in China's water supply industry and has served in the industry for nearly 20 years, with extensive experience in the construction of water pipe networks, regional water supplies, and the design, construction and management of hydropower stations.

CORPORATE GOVERNANCE REPORT

OVERVIEW

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

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

For the year ended 31 December 2014, the Company has complied with the code provisions of Corporate Governance Code ("CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"), save for the deviations of Code A.2.1, A.4.1 and A.6.7.

A. Directors

A.1 The Board

- The overall management of the Company's business is vested in the Board. The Board takes responsibility to oversee all major matters of the Company, including the formulation and approval of all policy matters, overall strategies, internal control and risk management systems, and monitoring the performance of the senior management. The Directors have to take decisions objectively in the interests of the Company. The Company has held 44 Board meetings in the year of 2014. Directors have been consulted to advice the agenda of the Board meeting. Sufficient notice of the Board meeting has been given to the Directors.

- Directors may attend meetings in person or through other means of telephone, electronic or other communication facilities in accordance with the minutes of the Board. The Board Committees are recorded in sufficient details and kept by the company secretary for inspection at any reasonable time on reasonable notice by any Director.

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

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

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

- The Board holds meetings on a regular basis and will meet on other occasions when a board-level decision on a particular matter is required. The individual attendance records of each Director including INEDs at the meetings of the Board, Remuneration Committee, Audit Committee, Nomination Committee, Investment Committee and general meetings during the year ended 31 December 2014 are set out below:

Attendance Records

	Number of meetings attended/held						
Name of Directors	**Board**	**Remuneration Committee**	**Audit Committee**	**Nomination Committee**	**Investment Committee**	**Annual General Meeting**	**Extraordinary General Meetings**
Executives Directors:							
Mr. Wang De Yin *(Chairman and Chief Executive Officer)*	44	N/A	N/A	2	13	1	2
Mr. Lin Yue Hui	40	N/A	N/A	N/A	13	–	2
Mr. Liu Feng	43	3	N/A	N/A	12	1	2
Ms. Deng Xiao Ting	41	N/A	N/A	N/A	N/A	1	2
Ms. Chu Yin Yin, Georgiana	31	N/A	N/A	N/A	N/A	1	2
Independent Non-Executive Directors:							
Mr. Guo Chao Tian	40	N/A	2	N/A	N/A	–	–
Mr. Li Jian Jun	41	3	2	2	N/A	–	2
Mr. Wong Siu Keung, Joe	44	3	2	2	N/A	1	2

N/A: not applicable

A.2. Chairman and Chief Executive Officer

- On 19 July 2012, Mr. Wang De Yin ("Mr. Wang"), currently is the Chairman of the Company, was appointed as a Chief Executive Officer of the Company ("CEO"). This deviates from the code provision A.2.1, the roles of the chairman and CEO of the Company should be separate and should not be performed by the same individual. The Board has evaluated the current situation of the Group and taken into account of the experience and past performance of Mr. Wang, the Board was of the opinion that it was appropriate and in the best interest of the Company at the present stage for vesting the roles of the Chairman and the CEO of the Company in the same person as it helps to facilitates the execution of the Group's business strategies and maximizes the effectiveness of its operation. The Board will nevertheless review this structure from time to time and will consider the segregation of the two roles at the appropriate time.

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

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

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

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

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

- The Chairman has held one private meeting with INEDs to discuss major events or issues which incurred in 2014 and the Company's business plan to be developed in 2015. The Board believed that INEDs could through this private meeting to voice out their concerns on financial aspects after discussing major events or issues and provide constructive advice on the direction of Company's future development.

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

A.3 Board Composition

- The composition of the Board is shown on page 27 of this report. The Board comprises a total of 8 members including 5 executive Directors and 3 INEDs. Members of the Board have different professional and relevant industry experiences and background so as to bring in valuable contributions and advices for the development of the Group's business.

- During the year, the Board at all times met the requirements of the Listing Rules of 3.10 relating to having at least 3 INEDs, and one of the INEDs has possessed professional qualifications in accounting and financing field. Mr. Wong Siu Keung, Joe ("Mr. Wong") is a certified public accountants.

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

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

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

- The names of the directors and their respective biographies are set out on pages 24 to 25 of this annual report.

A.4 Appointment, re-election and removal

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

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

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

- All INEDs of the Company were not appointed for a specific term but they are subject to retirement by rotation and re-election at AGM of the Company in line with the Company's A. A. This deviates from Code Provision of A.4.1 of CG Code, non-executive Directors should be appointed for a specific term, subject to re-election while all Directors should be subject to retirement by rotation at least once every three years.

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

A.5 Nomination Committee

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

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

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

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

iii. To advise the Board on the appointment and succession planning of Directors and assessing the independence of independent non-executive Directors;

iv. To review the Board Diversity Policy; and

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

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

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

- During the year under review, the Nomination Committee held one meeting to review the composition of the Board and its committees as well as the background and experiences of the Board members and evaluate the contributions of the Board members to the Group in 2014. An analysis of the Board's current composition is set out in the following chart:

Name of director	Title	Age	Gender	Professional/ Industry experience	Ethnicity	Educational background	Length of service on Board (since)
Wang De Yin	ED, Chairman & CEO	52	Male	Information technology, corporate management and business restructuring	Chinese	Bachelor's degree	August 2011
Lin Yue Hui	ED	44	Male	PRC law profession and investment	Chinese	Doctoral degree	August 2011
Liu Feng	ED	53	Male	Banking, financing and property operation	Chinese	Master's degree	August 2011
Deng Xiao Ting	ED	41	Female	Accounting and investment	Chinese	Bachelor's degree	July 2012
Chu Yin Yin, Georgiana	ED & Company Secretary	44	Female	Accounting, auditing and financing	Chinese	Master's degree	October 2006
Guo Chao Tian	INED	69	Male	Economic analysis and investment	Chinese	Master's degree	June 2012
Li Jian Jun	INED	36	Male	Electro acoustic product & corporate management	Chinese	Bachelor's degree	September 2012
Wong Siu Keung, Joe	INED	50	Male	Accounting, auditing and financing	Chinese	Masters' degree	October 2012

ED: executive Director

INED: Independent non-executive Director

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

- During the year, the Nomination Committee held 2 meetings and the attendance of each member is set out in the section headed "The Board" of this report

A.6 Responsibilities of the Directors

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

- All Directors have participated in continuous professional development to develop and refresh their knowledge and skills to ensure their contribution to the Board remains informed and relevant. In 2014, the Company has arranged a training to all Directors which was provided by the accredited service provider.

During the year ended 31 December 2014, the Directors participated in the following training:

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

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

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

- There were satisfactory attendances and active participations at the Board meetings, the Board Committee meetings and the general meetings by the Directors.

- The Company has adopted the full set of Model Code set out in Appendix 10 of the Listing Rules as the code of the conduct for securities transactions by directors (the "Model Code"). The prohibitions on securities dealing and disclosure requirements in the Model Code apply to specified individuals including the Group's senior management and also persons who are privy to price sensitive information of the Group. Having made specific enquiry of all directors, the Board confirms that the director of the Company have complied with the Model Code regarding directors' securities transactions during the year and up to the date of publication of the Annual Report.

A.7 Supply of and access to information

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

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

B Remuneration of directors and Senior Management

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

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

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

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

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

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

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

- The details of the remuneration of the Directors are set out in note 13 of the consolidated financial statements of this annual report. The band of the emoluments of senior management personnel and related number of members of senior management personnel are as follows:

Emolument band (HK$)	**2014 Number of individuals**	2013 Number of individuals
Nil to 500,000	**1**	3
500,001 to 1,000,000	**4**	1

During the year, the Remuneration Committee determined the remuneration packages of the executive Directors including INEDs and senior management of the Company, and reviewed the collective performance and individual performance.

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

- The Remuneration Committee held 3 meetings during the year to review and approve the remuneration of executive Directors including INEDs and senior management. The attendance record of individual members is set out in the section headed "The Board" of this report.

C Accountability and Audit

C.1 Financial Reporting

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

- The directors acknowledged their responsibility for preparing the financial statements of the Company for the year ended 31 December 2014. The Board must ensure that the financial statements of the Group are prepared so as to give a true and fair view of the financial status of the Group.

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

- A statement by the independent auditor of the Company about their reporting responsibilities is included in the Report of the Auditors on page 66 to 67 of this annual report.

- A separate statement in the Annual Report on page 7 to 23 containing a discussion and analysis of the Group's performance.

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

C.2 Internal Control

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

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

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

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

- To reinforce and stringent control on the Listing Rules compliance and internal control system, the Company has engaged a compliance advisor for consultation matters so as to improve the internal controls for procuring the compliance of the Listing Rules.

- The annual review of the adequacy of resources, qualifications or experience of staff of the Company's accounting and financial reporting function and their training programs and budget was conducted in 2014. The Chief Internal Auditor reported the review results to the Audit Committee. The Board believed that the Company has sufficient qualifications and experience staff in accounting and financial reporting function.

C.3 Audit Committee

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

The major duties of the Audit Committee include:

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

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

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

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

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

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

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

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

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

For the year under review, the Audit Committee held 2 meetings included the review of the final results for the year ended 31 December 2014 and interim accounts for 30 June 2014. The Group's annual report for the year ended 31 December 2014 has been reviewed by the Audit Committee. The attendance record of individual members is set out in the section headed "The Board" of this report.

D. Delegation by the Board

D.1 Management functions

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

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

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

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

  – Setting the objectives and targets of the Company;

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

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

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

  – Regularly evaluating businesses and operation performance;

  – Ensuring effective implementation of the Board's decision;

  – Ensuring adequate fundings; and

  – Monitoring performance of the management of the Group.

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

D.2 Board Committees

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

D.3 Corporate Governance Functions

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

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

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

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

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

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

E Communication with shareholders and investors

E.1 Effective communication

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

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

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

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

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

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

- The updated consolidated version of the Company's Memorandum and A.A is available on the Company's website and on the Stock Exchange's website. During the year ended 31 December 2014, there was no change in the Company's constitutional documents.

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

E1.1 SHAREHOLDERS' RIGHTS

Procedures for Shareholders to Convene an EGM

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

Procedures for Proposing a Person for Election as a Director

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

Procedures for Directing Shareholders' Enquiries to the Board

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

E.2 Voting by poll

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

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

F. Company Secretary

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

INVESTMENT COMMITTEE

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

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

- The major duties of the Investment Committee include:

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

  (b) Review the investment policies and strategy;

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

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

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

- The Investment Committee held 13 meetings during the year. The attendance record of individual members is set out in the section headed "The Board" of this report.

AUDITORS' REMUNERATION

For the financial year, the remuneration paid and payable to Crowe Horwath (HK) CPA Limited, the auditors of the Company, totalled approximately of HK$1,322,000, of which HK$900,000 related to audit services and HK$422,000 to professional services for special engagements, taxation and other non-audit services including HK$376,000 associated with the transaction for the disposal of 70% equity interests in Super Sino Group. The auditors' remuneration has been duly approved by the audit committee and there was no disagreement between the Board and the audit committee on the selection and appointment of auditor.

COMPLIANCE WITH THE CODE ON THE CORPORATE GOVERNANCE CODE

The Company has complied with the CG Code throughout the financial year ended 31st December 2014 except for deviations from the code provision A.2.1, A.4.1 and A.6.7 as below:

- Pursuant to the Code Provision of A.2.1 of the CG Code, the roles of the chairman and chief executive officer of the Company should be separate and should not be performed by the same individual. On 19 July 2012, Mr. Wang, currently is the Chairman of the Company, was appointed as a CEO. The Board has evaluated the current situation of the Group and taken into account of the experience and past performance of Mr. Wang, the Board was of the opinion that it was appropriate and in the best interest of the Company at the present stage for vesting the roles of the Chairman and the CEO of the Company in the same person as it helps to facilitates the execution of the Group's business strategies and maximizes the effectiveness of its operation. The Board will nevertheless review this structure from time to time and will consider the segregation of the two roles at the appropriate time.

- Pursuant to the Code Provision of A.4.1 of the CG Code, non-executive directors should be appointed for a specific term, subject to re-election while all directors should be subject to retirement by rotation at least once every three years. All independent non-executive directors of the Company were not appointed for a specific term but they are subject to retirement by rotation and re-election at AGM of the Company in line with the Company's A. A.

- Pursuant to code provision A.6.7 of the CG Code, the independent non-executive Directors and other non-executive Directors should attend general meetings. At the EGM held on 14 March 2014 and 7 November 2014 ("2014 EGMs"), and AGM held on 13 June 2014 ("2014 AGM"), Mr. Guo Chao Tian ("Mr. Guo") was unable to attend 2014 EGMs and 2014 AGM and Mr. Li Jian Jun ("Mr. Li") was unable to join 2014 AGM due to their business engagement in China. Mr. Guo and Mr. Li are independent non-executive Directors of the Company. Except for them, all Directors of the Company had attended the 2014 EGMs and 2014 AGM, at which the Directors had communicated with and developed a balanced understanding of the views of shareholders.

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

The Board of Directors of the Company, present their report together with the audited consolidated financial statements of the company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2014.

PRINCIPAL ACTIVITIES AND ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The principal activities of the Group include: (i) provision of water supply and sewage treatment services; (ii) construction of water supply and sewage treatment infrastructure; and (iii) exploitation and sale of renewable energy in the People's Republic of China ("the PRC").

SEGMENT INFORMATION

Analyses of the Group's segmental information by business and geographical segments for the year ended 31 December 2014 are set out in note 8 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2014 and the state of affairs of the Group and the Company are set out in the financial statements on pages 68 to 191.

DIVIDENDS

The Directors do not recommend the payment of a dividend for the year ended 31 December 2014 (2013: Nil).

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2014, the aggregate amount of turnover attribute to the Group's five largest customers was less than 30% of the total value of the Group's turnover. The Group's purchase to the five largest suppliers accounted for less than 30% of the total value of the Group's purchase. None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment and investment property of the Group during the year are set out in notes 17 and 20 to the consolidated financial statements, respectively.

SHARE CAPITAL, SHARE OPTIONS AND CONVERTIBLE BONDS

Details of the movements in the Company's share capital, share options and convertible bonds during the year are set out in notes 35, 42, and 34 to the consolidated financial statements, respectively.

RESERVES AND DISTRIBUTIVE RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and note 35 to the consolidated financial statements, respectively.

The Company's reserves available for distribution comprise the share premium account, less accumulated losses. As at 31 December 2014, the reserves of the Company available for distribution to shareholders amounted to HK$163,968,000.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2014 are set out in notes 30 and 31 to the consolidated financial statements.

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 192.

DIRECTORS

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

Executives Directors:

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

Independent Non-Executive Directors

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

In accordance with article 108(A) of the Company's Articles of Association, one-third of the Directors for the time being or, if their number is not a multiple of three or a multiple of three, then the number nearest to but not exceeding one-third shall retire from the office by rotation at least once every three years, Mr. Lin Yue Hui, Mr. Guo Chao Tian and Mr. Li Jian Jun will retire from office by rotation and will offer themselves for re-election at the AGM.

DIRECTORS' BIOGRAPHICAL DETAILS

Biographical details of the directors of the Company are set out on pages 24 to 25 of the annual report.

EMOLUMENT POLICY

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

DIRECTORS' SERVICE CONTRACTS

As at 31 December 2014, none of the Directors has entered into any service contracts with the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations and does not have specific terms of appointment but is subject for retirement and for re-elections at the forthcoming AGM as required by the A.A. of the Company.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 31 December 2014, the interests and short positions of each Director and Chief Executive of the Company, or their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO") which (a) had been notified of the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which Directors have taken or deemed to have under such provisions of the SFO) or which (b) were required pursuant to section 352 of the SFO, to be entered in the register referred to therein; or which (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in Appendix 10 to the Listing Rules to be notified to Company and the Stock Exchange were as follows:

(i) Interest in the Shares

Name of director	Nature of interest	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Mr. Wang De Yin	Beneficial owner	5,000,000 (L)	0.38%
Mr. Lin Yue Hui	Beneficial owner	5,000,000 (L)	0.38%
Mr. Liu Feng	Beneficial owner	5,000,000 (L)	0.38%
Ms. Deng Xiao Ting	Beneficial owner	3,000,000 (L)	0.23%
Ms. Chu Yin Yin, Georgiana	Beneficial owner	1,443,200 (L)	0.11%

For the purpose of this section, the shareholding percentage in the Company is calculated on the basis of 1,332,331,766 shares in issue as at 31 December 2014.

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

Save as disclosed above, as at 31 December 2014, none of the Directors or Chief Executive of the Company had any interest or short position in any shares, underlying shares or debenture of the Company or any of its associated corporations (within meaning of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which Directors have taken or deemed to have under such provisions of SFO) or (b) were required pursuant to section 352 of the SFO, to be entered in the register referred to therein; or which (c) were required, pursuant to the Model Code to be notified to Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2014, the following persons and entities, other than a Director or chief executive of the Company disclosed under the section "Directors' and Chief executive's interests in Securities" above had interest or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of SFO:

Name of shareholder	Capacity	Number of shares held	Number of underlying shares held under equity derivatives	Approximate Percentage of the issued share capital of the Company
Deng Jun Jie	Interest of controlled corporation	220,900,000 (L) *(Note 1)*	–	16.58%
Honghu Capital Co. Ltd	Beneficial owner	220,900,000 (L) *(Note 1)*	–	16.58%
Central Huijin Investment Ltd.	Interest of controlled corporation		63,694,267 (L) *(Note 2)*	4.78%
China Construction Bank Corporation	Interest of controlled corporation		63,694,267 (L) *(Note 2)*	4.78%

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

Note 2: These 63,694,267 underlying shares held under equity derivatives are those shares which would be issued upon exercise of the convertible right attached to the Series B Bonds issued by the Company as disclosed in the announcement of the Company dated 16 October 2013. These underlying shares are held by Prosper Talent Limited ("Prosper Talent") which is indirectly wholly-owned by China Construction Bank Corporation ("CCBC"). Central Huijin Investment Ltd. ("Central Huijin") is interested in 57.26% of equity interest in CCBC. As the issued share capital of Prosper Talent is indirectly held by CCBC and Central Huijin, they are deemed to be interested in underlying shares by virtue of the SFO.

Note 3: The shareholding percentage in China Water is calculated on the basis of 1,332,331,766 shares in issue as at 31 December 2014.

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

DIRECTORS' RIGHTS TO ACQUIRES OR DEBENTURES

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

MANAGEMENT CONTRACTS

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

CONNECTED TRANSACTIONS

During the year, the Group has not entered into any significant connected transaction or continuing connected transaction which should be disclosed pursuant to the requirements under the Listing Rules.

RELATED PARTY TRANSACTIONS

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

SHARE OPTION SCHEME

On 3 June 2011, the Company had adopted the New Share Option Scheme ("Scheme") for the purpose of providing incentives or rewards to selected eligible participants for their contributions to the Group. The scheme is valid and effective for ten years and will expire on 2 June 2021. From the date of the Scheme being adopted up to 31 December 2014, no option has been granted, for which the details are set out in note 42 to the consolidated financial statements. Save for the Scheme, the Company did not have any other Share Option Scheme as at 31 December 2014.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's (A.A.) 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.

PURCHASES, REDEMPTIONS OR SALES OF COMPANY'S LISTED SECURITIES

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

RETIREMENT SCHEMES

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

SUFFICIENT OF PUBLIC FLOAT

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

AUDIT COMMITTEE

In accordance with the requirements of the Listing Rules, the Group established an audit committee comprising three Independent Non-executive Directors of the Company. The Audit Committee of the Company has reviewed the audited consolidated financial statements for the year ended 31 December 2014. Information on the work of Audit Committee and its composition are set out in the Report of the corporate Governance on pages 26 to 42 of the annual report.

CHANGE IN INFORMATION OF DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of Directors of the Company subsequent to the date of the 2013 Annual Report required to be disclosed were (i) the discretionary bonus was paid to executive Directors in respect of the year ended 31 December 2014, details of emoluments of the Directors of the Company are set out in note 13 of this annual report, and (ii) the updated biographic details of the Directors are set out on pages 24 to 25 of the annual report.

CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 26 to 42 of this Annual Report.

CONFIRMATION OF INDEPENDENCE

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

AUDITORS

Crowe Horwath (HK) CPA Limited (the "Crowe Horwath (HK)") will retire, being eligible and offer themselves for re-appointment. A resolution is to be proposed by the Company at the forthcoming AGM to re-appoint Crowe Horwath (HK) as the auditor of the Company.

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

Hong Kong, 27 March 2015

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

INTRODUCTION

China Water Industry Group Limited ("China Water Industry"), specialized in the investment and operation of water affairs projects and urban solid waste treatment in Mainland China, serves as a professional investment company as well as an operation and management service provider in the urban water project and urban solid waste treatment.

According to our three-year development plan formulated by management at the end of 2011, we placed sustainable growth as one of our highest priorities in 2014. In light of the State's strong emphasis on clean energy and environmental protection, concerted efforts were being made to fully develop relevant aspects throughout the Group. On the premise of maintaining growth in the Group's core water business, the Group successfully opened up the area of integrated utilization of waste disposal in 2013 and continued to expand the scale of our waste-to-energy and landfill gas projects in 2014 for the interest of the nation and its people amidst continuous growth and innovation while achieving our corporate mission of environmental protection.

Looking back into 2014, the Group was devoted to the development of environmental protection, community contribution as well as its employee and stakeholder engagement. To act in concert with the energy conservation and emission reduction policies of the State while continuing to develop wastewater treatment business, we acquired several solid waste landfill gas and biogas processing and generation companies in 2014 for further implementation of the recyclability and sustainability concepts. In giving back to the community, we were committed to maintaining close ties with the community to shoulder corporate social responsibility. We also provided our staff with quality training and professional development opportunities with a safe and healthy work environment. At the same time, we maintain close communication with other stakeholders via different channels, such as reporting to government agencies on a regular basis to ensure that the Group's operations are compliant with the laws and regulations; reporting our latest developments to shareholders through website, press release and public announcement; conducting meetings with business partners with an open and sincere attitude to achieve mutual trust and benefit.

This section is our first report outlining our commitments and strategies to environmental protection, social responsibility and governance. Relevant disclosures are made in accordance with the *Environmental, Social and Governance Reporting Guide* published by Hong Kong Stock Exchange, highlighting our performance in various aspects of the guide during 2014. The scope of reporting covers the Group's headquarters and its subsidiary operating companies, including the Group's three major business areas: (1) wastewater treatment; (2) urban water supply; and (3) solid waste treatment.

WORKPLACE QUALITY

China Water Industry deeply believes that employees are the cornerstone for the success of our business. We are dedicated to creating a harmonious and pleasant work environment where our employees are valued with respect. We support long-term career development by providing a platform for employees to develop their potentials to their fullest while growing together with the Group. In striving to become the best employer in the industry, we make every effort to offer a safe, harmonious, fair, discrimination-free and diverse working environment along with competitive compensation packages and rewarding career path to attract and retain talents.

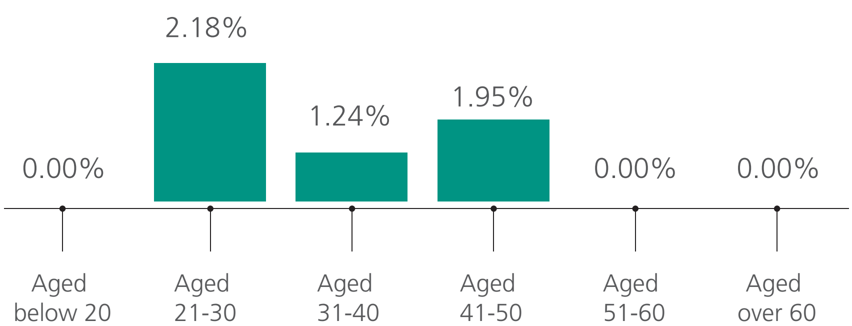
Talent Acquisition

The Group abides by the principle of equal opportunities. We do not take into consideration of seniority, place of residence, gender, age, family status and other facts irrelevant to competencies and qualifications of the candidates throughout the recruitment decision making process. At the same time, we are committed to hiring employees locally in an effort to increase employment opportunities in the local community and thus place ourselves in a position to better understand local needs and expectations for appropriate strategic business planning.

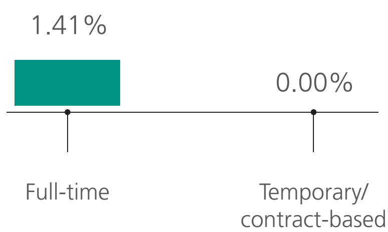
As of 31 December 2014, China Water Industry employed a total of 1,002 staff across our business segments, including urban water supply, construction services for water supply infrastructure, sewage treatment and solid waste treatment.

We have established a complete remuneration system and a performance appraisal system. All of our employees receive regular performance review and appraisal to ensure the effective and efficient operation of the Group.

Staff turnover by age group



Staff turnover by employment category



Equal opportunities

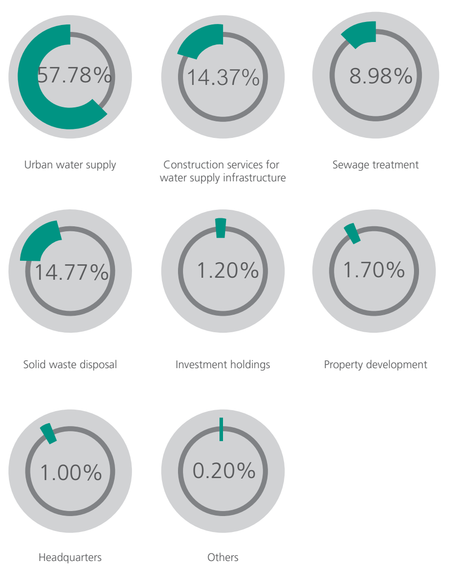
China Water Industry draws top talents of different backgrounds. We attach great importance to fostering a non-discrimination culture in our group by offering equal opportunities to our employees. No discrimination case has been reported to date. Regardless of race, color, descent, ethnic background, ethic origin, gender, age, nationality, disability, veteran status, citizenship and religion, all job applicants and current employees enjoy equal opportunities and fair treatment.

We believe that the Group grows stronger with a diverse workforce which brings talents with various competencies and capabilities. We value the inputs and contributions made by employees of all backgrounds.

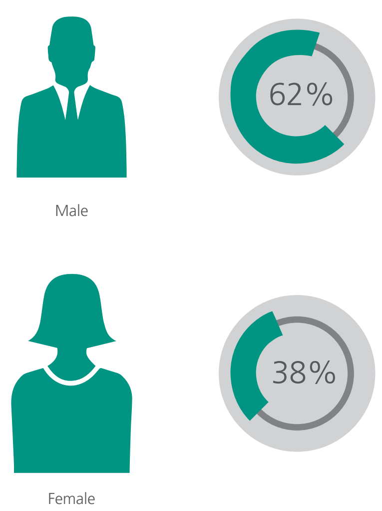
In addition, the Group strictly complies with local employment legislation. Any sort of child labor or forced labor will be rooted out.

As of 31 December 2014, our total workforce included 617 male staff members and 385 female staff members, the vast majority of which were full-time employees.

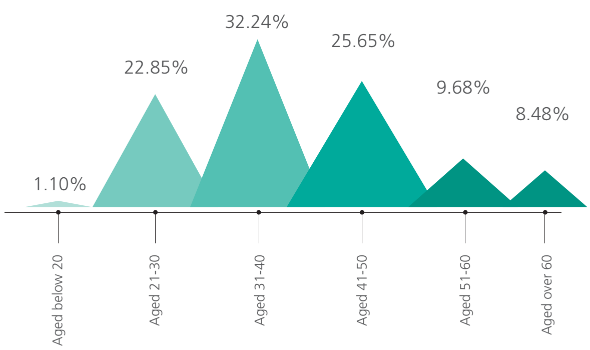
Distribution of employees by business



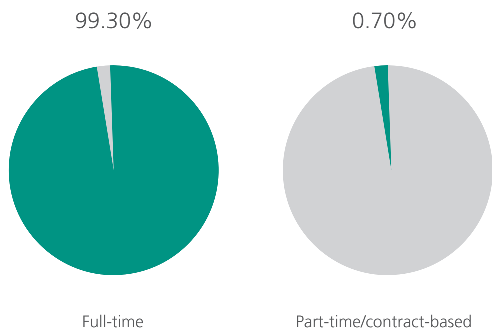
Distribution of employees by gender



Distribution of employees by age group



Distribution of employees by employment category



Occupational health and safety

Being a responsible enterprise, China Water Industry places great importance on health and safety in the workplace. Workplace safety is the core value in our business development. We are committed to creating a healthy and safe working environment for employees in strict compliance with the standards stipulated by the State Administration of Work Safety across all aspects to ensure that all operating project companies have reached high standards of safety performance. We also set up internal guidelines and systems to enhance the health and safety awareness among employees.

A workplace safety team responsible for monitoring the overall safety issues to ensure strong commitment among employees is established in all project companies. According to our safety management system, a safety officer is appointed in each project company to carry out regular inspections daily in order to eliminate hidden dangers and minimize potential risks in no time. As for waste-to-energy operations, we have installed surveillance system to comprehensively monitor the risks in operation areas round the clock in protection of our workers.

We are convinced that occupational health and safety is the essence when it comes to the success of our business. Depending on business nature, we offer annual or biennial medical check-up to ensure the health of our employees. In terms of daily operation, we provide our staff with adequate protective equipment to ensure their safety. In addition, we arrange safety training for employees on a monthly basis to raise their awareness about safety. A certificate will be awarded to employees who can successfully complete the safety training.

In the event of any accidents at work, our employees have to report and investigate the incident in accordance with the Company's policy. All employees must report to their superiors in respect of any accident at work for immediate implementation of appropriate protective measures. In case of any unfortunate injury, We promise to provide the injured employee with support and assistance during treatment and will make every endeavor to provide the employee with opportunities for meaningful and appropriate work during rehabilitation. As conditions allow, it is our goal to return the injured employee to work.

Zero injury and zero accident have always been the target of China Water Industry. Thanks to the efforts of all levels, we are pleased to announce that China Water Industry has successfully maintained a zero injury and zero accident rate for the past three consecutive years.

Development and training

Our continued success heavily depends upon our delicate and loyal staff. Therefore we are committed to encouraging employees to pursue excellence and enhance potentials through continuous training. We believe that a win-win situation can optimally be attained by investing in employees as it benefits both the personal development of our employees and the future success of our operations.

As every business has its unique challenges, individual divisions are required to develop appropriate training to meet the actual professional and technical needs. These training courses take different forms including internal training courses and other on-the-job training programs. To show recognition and acknowledgment, relevant qualification certificates are presented to employees upon completion of certain courses.

Some of the courses offered in 2014 included:

1. Safety training certificate
2. Wastewater treatment procedure
3. Wastewater monitoring
4. Wastewater treatment
5. Junior accounting license
6. Laboratory training
7. Corporate environmental supervisor
8. High voltage training
9. High pressure gas filling training and textual research
10. High pressure network entry license examination
11. Geological survey directive assessment

Moreover, we encourage open and direct communication between employees and management. We create a harmonious partnership with our employees by allowing management to learn about the views and thoughts of employees while keeping employees informed of our policy. To build a bridge of communication with employees, we have published an internal publication "Sound of Water" since 2012 through which all staff will get to know the latest developments of the Group and our project companies as well as current industry information. Besides, a staff sharing column is set up for interaction between employees and our company.

SUSTAINABLE DEVELOPMENT, ENVIRONMENTAL PROTECTION AND BUSINESS OPERATION

"Making the world endowed with clean water, blue sky and vivid green land" is the corporate vision of our Group. As a good corporate citizen, we are determined to shoulder the responsibility of "Protection of our Mother Earth" by ensuring our Group and our operating project companies strive for business growth by acting responsibly. In full support of environment protection, we aspire to be a renowned green environment protection brand with higher values in China through our stepwise initiative towards sustainable development.

At the same time, to maintain good corporate governance, we have established a series of control and management systems to ensure efficient operation and growth in all business segments.

Green energy

Amid the take-off of China's economy, the process of urbanization quickens and the standard of living improves rapidly. It follows that the volume of waste has increased substantially. Disposal of refuse has put pressure on land use while the wide range of solid waste along with its exhaust gas has led to issues of serious environmental pollution and enormous resource consumption. Taking the severe situation into account, the recent Report on the Work of Government states that enterprises are strongly encouraged to develop a recycling economy and the utilization of waste resources in an attempt to build energy conservation and environmental protection industries as emerging pillars of the economy.

Being a responsible environmental protection enterprise, in recent years, China Water Industry has dedicated to exploring opportunities for development of renewable energy. In the hope of improving the environment and supplying green energy to the community by "transforming trash to treasure", we focus on the development of garbage-to-power and landfill gas generating natural gas projects. It is our mission to make substantial contributions to alleviate the energy shortage issue of our nation and to play a significant role in combating global climatic changes.

Landfill-gas-to-power generation can not only achieve the effective use of renewable energy but also reduce greenhouse gas emissions from landfill. The environmentally-friendly way of handling landfill gas is a typical contributor to a low-carbon economy that goes in line with the "energy conservation and emission reduction" notion advocated by the State. With the concept of garbage biogas utilization, through a complete system of garbage biogas collection, transportation, purification and generation, we fully utilize garbage biogas to generate electricity for residents by incorporation of power into city power grids. In 2014, with three landfill gas generation projects in Nanjing and Hunan, we generated 97,770,000 degrees of electricity and helped offset 1,260,000 tonnes of carbon dioxide emissions. Going forward, the Group will continue to seek suitable investment opportunities for business growth while contributing to national environment protection.

In pursuit of the environmental protection mission of "Green China", China Water Industry is determined to seeking ways for efficient utilization of resources to cut down the production of waste in the course of business development and operation so as to reduce the impact on the environment. We adopt high emission standards. Our landfill gas generation projects are compliant with gas emission limitations as set under "Integrated Emission Standards of Air Pollutants" (GB16297-1996) and "Emission Standards of Air Pollutant for Boilers" (GB13271-2014). In terms of noise control, our landfill gas generation projects seek ways to reduce noise nuisance in accordance with the Class-2 standards of the "Emission Standards of Environmental Noise" (GB12348-2008).

To make efficient use of the landfill-gas-to-power projects, our Nanjing Project has utilized remaining heat from high-temperature flue gas of generators. Internal combustion engines have a thermal efficiency of approximately 40%, while 45% of the heat is evacuated with the smoke. Considering that using such portion of heat can largely enhance the overall efficiency of energy conversion, we make use of flue gas of over 600 degrees produced in power generation to heat up steam boilers to produce hot water for distribution to the bath industry, schools and hot water consuming companies. Currently, we are capable of producing approximately 400 tonnes of hot water each day. Such application has reduced the consumption of non-renewable resources in traditional hot water production industry. In addition, in order to save energy, we install variable frequency device to high usage power generators to provide the power and voltage required according to the actual needs. Heat insulation device is also installed to heat exchanger components to slow down heat dissipation.

Aside from the landfill gas generation projects, the Group's landfills in Shenzhen are engaged in the collection of landfill gas and the utilization of landfill gas purification. Through various professional techniques and top-notch system for accurate gas collection, the volume and efficiency of landfill gas collection are enhanced. The negative effects on the environment caused by the emission of landfill gas are hence tremendously reduced. No waste gas, waste water and other environmental pollutants are produced during project operation to achieve "zero emission". Currently, our landfill gas collecting rate is more than 13,000m^3/h while collection efficiency is up to 90%. In 2014, the amount of landfill gas collected was 56,813,400m^3 which has helped to reduce 541,182 tonnes of carbon dioxide emissions.

In terms of gas emissions, our landfill gas collection and landfill gas purification project in Shenzhen is compliant with China's "Emission Standards of Odor Pollutant" (GB14554-93). The project has obtained international standards of GB/T 19001-2008 / ISO 9001:2008 quality management system certification and has been awarded with the "Shenzhen Environmental Protection Engineering Technology" qualification certificate, the "Environmental Protection Science and Technology Award", the "Pollution Control Facility Operating Service" capacity assessment certificate as well as the "National Award for Advanced Enterprise in Market-oriented Environmental Pollution Control Facility Operation" granted by Ministry of Environmental Protection of the State earlier.

The Group's landfill gas-to-power projects in 2014:

97,770,000 degrees
of electricity provided

1,260,000 tonnes
of carbon dioxide emissions offset

The Group's landfill gas collection and landfill gas purification and utilization in 2014:

56,813,400 m^3
of landfill gas collected

541,182 tonnes
of carbon dioxide emissions reduced

Clean Development Mechanism (CDM)

The Clean Development Mechanism is an internationally recognized trading mechanism for reducing greenhouse gas emissions. Its core concept is to allow the transfer and acquisition of carbon credits between developed and developing countries. Through the sale of certified emission reductions (CERs), projects which successfully registered as CDM projects can enhance their corporate image internationally and raise economic efficiency for the interest of environmental and social development of the country.

China Water Industry has sought for opportunities for CDM projects. Our Nanjing Jiaozishan landfill gas collection, utilization and heat generation project (南京市轎子山垃圾填埋氣回收利用供熱項目), Shenzhen Xiaping solid waste landfill for landfill gas collection and utilization project (深圳下坪固體廢棄物填埋場填埋氣體收集利用項目), Zhuzhou landfill gas-to-power project (株洲市垃圾填埋場填埋氣體發電項) and Hunan Changsha Qiaoyi landfill-gas-to-power project (湖南長沙橋驛垃圾填埋氣發電項目) (operated by our joint venture) have successfully registered as CDM projects. Shenzhen Xiaping Landfill Site Project is currently the largest landfill CDM project in China. So far it has been approved of issuances for a total of 2.5 million tonnes of carbon dioxide equivalent (CO2e) for 9 times with total production volume exceeding 3 million tonnes of CO2e. We also have made CDM applications for other purification projects.

Registered CDM projects
Nanjing Jiaozishan landfill gas collection, utilization and heat generation project (南京市轎子山垃圾填埋氣回收利用供熱項目)
Shenzhen Xiaping solid waste landfill for landfill gas collection and utilization project (深圳下坪固體廢棄物填埋場填埋氣體收集利用項目)
Zhuzhou landfill-gas-to-power project (株洲市垃圾填埋場填埋氣體發電項)
Hunan Changsha Qiaoyi landfill-gas-to-power project* (湖南長沙橋驛垃圾填埋氣發電項目*)

* This project is owned by one of our joint ventures

Technology research and development

Research and development play a crucial role in the issues of environmental protection and sustainable development. It further enhances our environmental protection performance.

To improve renewable waste disposal along with its energy and resource utilization and to carry out research and development on related technology, we signed a strategic cooperation agreement with Nanjing University. Nanjing University, being one of China's earliest universities to commence environmental science research and teaching, conducts specialized and in-depth research in the areas of air pollution prevention and control engineering and renewable energy utilization.

We have also signed a strategic cooperation agreement with Nanjing Carbon Recycle Biomass Technology Company Limited on the supply of equipment and technical service for landfill gas purification and compression projects. Nanjing Carbon Recycle Biomass Technology Company Limited which is committed to conducting research on the development and utilization of landfill gas, biogas and other alkane biomass gas had participated in the development and construction of nearly 100 domestic landfill and coal bed methane projects.

Wastewater treatment

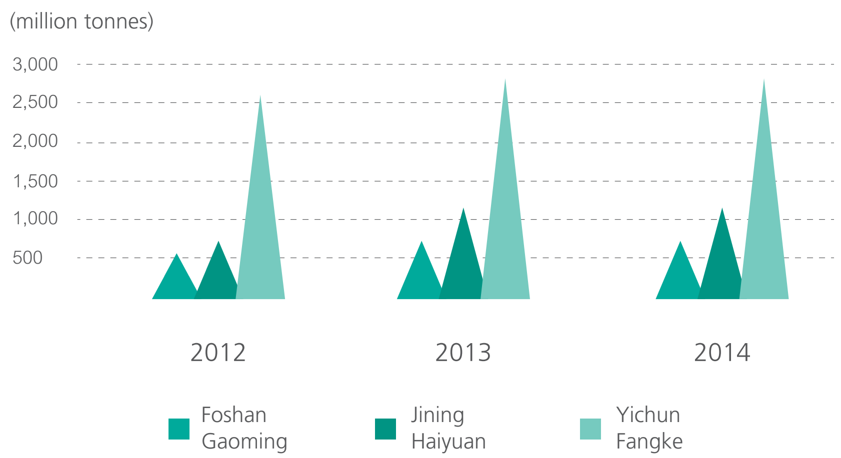
As the population in China continues to grow, the notion of water protection together with its recycling and regeneration concepts have become increasingly important. At the same time, with the rapid growth of cities, urban and industrial sewage treatment is an issue of extreme urgency today.

The Group has rich experience in sewage treatment. We have three sewage treatment projects situated in Jiangxi's Yichun, Shandong's Jining and Guangdong's Foshan respectively. In 2014, we treated a total of 45,217,600 tonnes of wastewater.

All of our sewage treatment plants are in strict compliance with the "Pollutant Emission Standards for Urban Sewage Treatment Plants" (GB18918-2002) issued by Ministry of Environmental Protection. Our sewage treatment plant in Foshan has gone further to implement the "Water Pollutant Emission Standards" (DB44/26-2001) to ensure that all treated effluent can meet safety standards so as to avoid causing harm to the environment and the health of residents.

As for effluent from wastewater treatment, we discharge them at designated points according to agreements signed with the government. Treated wastewater attaining the national Class-I A standard is being guided into rivers and lakes for urban landscaping and treated effluent meeting the national Class-I B standard is being discharged to GB 3838 Surface Water Class III Functional Waters (except for appointed areas of protected drinking water sources and swimming water) and other closed waters such as lakes and reservoirs. For other emissions such as sludge, we reuse by making bricks for construction through burning. Part of sludge will be transported to government-designated fields for fertilization.

Volume of water treated by our wastewater projects in the past three years



Urban water supply

The Group has five urban water supply projects situated in Jiangxi's Yichun, Jiangxi's Yingtan, Hainan's Danzhou, Shandong's Linyi and Jinan's Hongquan respectively, supplying a total of 316,410,300 tonnes of water in 2014.

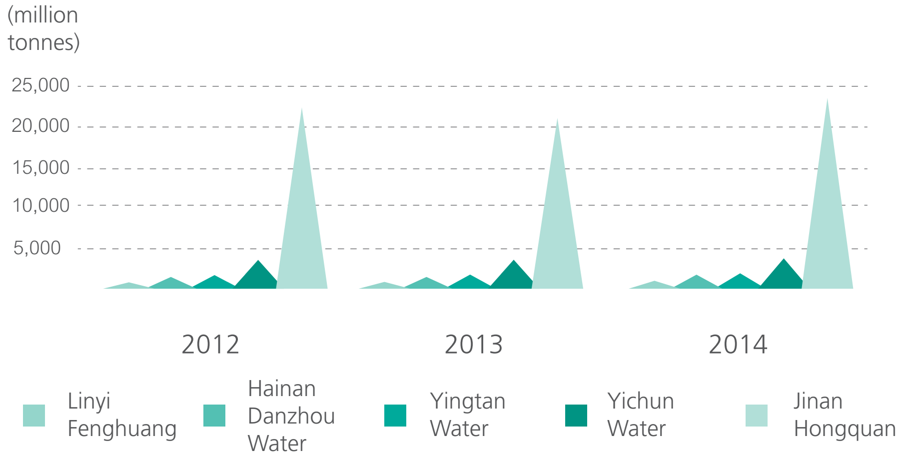
As the quality of domestic water directly affects the health of residents, we carry out precise inspection, monitoring and control on water quality and substances content of water source and our supplied drinking water. To provide safe, stable, reliable and adequate quality water to users, we are in strict compliance with the "Environmental Quality Standards for Surface Water" (GB3838-2002), the "Groundwater Quality Standards" (GB/T 14848-93), the "Water Quality Management Provisions for Urban Water Supply", the "National Sanitary Standards for Drinking water" (GB5749-2006), the "Water Quality Standards for Urban Water Supply" (CJ/T206-2005) as well as the Guo Ren Shi Han [2006] No.141 "Laboratory Accreditation Criteria" and "Polyaluminium Chloride Used in Drinking Water" (GB15892-200).

The safety of drinking water is closely related with people's daily lives. All water supply companies of the Group pay great attention to production safety. In order to ensure that water is produced under a safe environment, we strength the security management measures and remove potential risks in the plant areas. We also enhance the safety awareness, danger alertness and operational skills of our staff via education and training.

We set up 24-hour hotlines to provide users with quality services round the clock for the convenience of inquiries or report of emergency anytime. We have also established a "time-limit completion system" which imposes higher requirements on pipeline network leakage repair. It requires all water supply companies to arrive at the site within a specified time according to the explosion and leaking situation for investigation, treatment and repair.

In addition, to improve water supply quality, Yingtan Water Supply Co., Ltd successively built a number of water supply pipelines, installed supporting devices for water supply pipelines and waterworks and replaced water pipeline valves to enhance the water supply system. In the old town areas, we also completed projects on pipeline network reconstruction to resolve the users' low water pressure and water pipe leakage problems.

Volume of water provided by our water supply projects in the past three years



Group operation

We are convinced that good corporate control and governance are key indicators of the daily operation of business units. Therefore, China Water Industry has developed a series of management systems and procedures in strict compliance with China's Enterprise Internal Control System and the Hong Kong Stock Exchange's Corporate Governance Code at the group level while taking into account the Company's business features to ensure that the Group and its staff can maintain a high standard of corporate governance with an honest and compliant attitude.

In selecting a service or supplies provider, our staff must comply with relevant procedures and obtain approval according to level of authority to ensure effective management within the Group. The Group also promotes the spirit of honest business and formulate procedures to prevent commercial bribery, refusing any internal and external pressures, impacts and temptations that may affect the operation of the Group.

In addition, the Group encourages all business companies to develop energy-saving and consumption-reducing policies to eliminate wastefulness and hence increase efficiency. In concert, we contribute to the environmental protection of the nation.

Community contribution

China Water Industry has always adhered to the philosophy of "to love with water and serve with heart" in our efforts to fulfil the responsibilities of a good corporate citizen. With a passion for charity, we strive to contribute to the communities where we operate by creating an inclusive and harmonious society and shouldering our sustained and long-term social commitments. With the concerted efforts of the Group, we have close interaction with the community through charity donation, community visit, volunteer work and other activities to provide loving care and financial assistance to the needy. Being a conscientious environmental protection enterprise, we also strongly promote environmental activities in the hope of achieving our corporate visions of "Making the world endowed with clean water, blue sky and vivid green land" and "Green Earth, Beautiful China" by raising the awareness toward environmental protection among the general public.

Charity donation

- During the year, some employees of the Group and their relatives were injured in traffic accidents and our group leaders had given their great attention and took the lead to launch donation activities. All the staff of the Group and project companies were generous and extended their helping hands to the families of the victims.

- Jinan Hongquan Water Production Co. Ltd and Linyi Fenghuang Water Industry Co Ltd started the "Good Deed A Day" event to provide regular assistance for needy residents on a yearly basis.

- Foshan City Gaoming Huaxin Sewage Treatment Company Ltd spontaneously made donations for road repairs as well as poor and sick villagers.

- Yichun Water Industry Co., Ltd launched the "Charity Donation Day" to raise donations for overseas water companies and needy staff.

- Employees of Yingtan Water Supply Co., Ltd participated in the "Bud Program" to sponsor education for poor children in the rural areas.

Community visit

- Yingtan Water Supply Co., Ltd participated in the event hosted by the municipal committee, organizing employees to go into the grassroots community and pay visits to difficult families so as to solve the practical problems of the community.

- Yichun Water Industry Co., Ltd was aware of the fact that residents in remote villages have been drinking well water with bacterial and fluoride contents exceeding drinking water standards and long-term consumption would produce harmful effects on physical health. Through active communication with residents and arranging onsite inspection, the company enabled the residents to enjoy clean, sanitary and safe drinking water with the lowest cost and the best water supply solution.

Volunteer work

- Jinan Hongquan Water Production Co. Ltd actively participated in the "Volunteers in Action" event to clean up garbage scattered along roads and green belts in the new area of Daiming Lake, one of the three major famous sites in Jinan. They improved the environment of scenic spots and promoted environmental care and good hygiene among visitors. The Company had also set up a youth team to carry out volunteer work in the communities.

Environmental promotion

- To promote water safety knowledge and water conservation, on World Water Day, Linyi Fenghuang Water Industry Co Ltd organized its middle-level staff for a community outreach. They put up banners along major road sections, distributed more than 3,000 copies of promotion materials to residents and answered their queries onsite. During the period, media interviews were carried out to intensify publicity so that more people could learn about general water knowledge, thereby enhancing the awareness toward water conservation while improving our corporate image.

AWARDS AND HONOURS

Over the years, China Water Industry has gained support, recognition and acknowledgement from various sectors through "to love with water and serve with heart". Below are the awards and honours received by the Group and project companies in the past three years:

2014

China Water Industry Group Limited
- Outstanding Low-carbon Environmental Institution Award
- 2014 Outstanding Environmental Protection Enterprise Award

Linyi Fenghuang Water Industry Co Ltd
- Enterprise for Harmonious Labour Relations in Linyi City
- Medal for Labour Promotion in Yimeng

Yichun Fangke Sewage Treatment Company Limited
- Business Advanced in Pollutant Emission Reduction in Yichun City
- Recognition of the joint inspection group of the Office of the State Council at onsite appraisal

2013

China Water Industry Group Limited
- "Star of Water" Enterprise with Best Growth in 2013
- Award for Contribution to Integrated Water Environmental Service
- Award for Contribution to Low-carbon Green Energy Conservation
- 2013 Outstanding Environmental Protection Enterprise Award

Yichun Water Industry Co., Ltd
- Title of Model Workers' Home awarded by Jiangxi Provincial Federation of Trade Unions
- National Youth Civilization (sales division paid lessons)
- Company Advanced in Promotional Work in 2012 awarded by the Urban Management Bureau
- Security Organization Advanced in Internal Security in 2012 awarded by Yichun's Public Security Bureau

Yichun Fangke Sewage Treatment Company Limited

- Urban Sewage Treatment Plant Operation and Management Demonstration Company in Jiangxi Province
- Top Ten Up-to-standard Companies
- Business Advanced in Energy Conservation and Emission Reduction

Jinan Hongquan Water Production Co. Ltd

- Company Advanced in Energy Conservation in Jinan's Huaiyin District in 2012
- Jinan Class-A Taxpaying Company
- Company Advanced in Huaiyin District Industrial Energy Statistics Work

2012

China Water Industry Group Limited

- Water Affairs Investment and Operation Enterprise with Best Social Responsibility in 2012
- Water Affairs Enterprise with Best Growth in 2012

Yichun Water Industry Co., Ltd

- Caring Enterprise Supported by Yichun Municipal Government for the Development of Environmental Business
- Yichun's Sixth (2010-2011) Civilized Norms Service Demonstration Window

Jinan Hongquan Water Production Co. Ltd

- National Excellent Organization Unit in the National Workers' Safety and Health Knowledge Competition

Yichun Fangke Sewage Treatment Company Limited

- Jiangxi Landscaping Business

CONCLUSION

The year 2014 was an important milestone in the development of China Water Industry. In the past year, the Group actively implemented the last section of its three-year development plan, achieving remarkable results in terms of "innovative development, economies of scale, brand strengthening and sustainability maintenance". At the same time, the State's vigorous new energy support and promotion had provided us with more opportunities.

With the objective of benefiting the country and the people, we set targets for sustainable development and corporate social responsibility. We are committed to the implementation of long-term and effective strategy and planning. With regard to environmental protection, we will continue to look for new opportunities to contribute to the protection of our environment in China. We will also integrate the concept of sustainable development in all business units to strengthen ties with the local communities and actively review and promote social and environmental education for a stronger image as an environmental protection enterprise. In addition, we will continue to listen to the feedback of various sectors with a transparent and open attitude, striving to become a conscientious corporate citizen.

We would like to thank all shareholders for their continuous support and trust to the Group. While growing stably, we will pursue progress and excellence unwaveringly to become a successful and sustainable enterprise.

Should you have any opinions or suggestions on the performance and objective of our sustainable development, please email it to info@chinawaterind.com.

INDEPENDENT AUDITOR'S REPORT

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

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

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

We have audited the consolidated financial statements of China Water Industry Group Limited (the "Company") and its subsidiaries (collectively the "Group") set out on pages 68 to 191, which comprise the consolidated and company statements of financial position as at 31 December 2014, and the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

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

BASIS FOR QUALIFIED OPINION

The Group and the Company had loans receivables of approximately HK$43,598,000, of which HK$15,598,000 and HK$43,598,000 was impaired as at 31 December 2012 and 2013, respectively. There were no satisfactory audit procedures which could be adopted to ascertain the carrying amount of the loans receivables being fairly stated as at 31 December 2012 and the impairment loss for the year ended 31 December 2013. Our opinion on the current year's consolidated financial statements is also modified because of the possible effect of this matter on the comparability of the current year's figures and the corresponding figures in the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income.

The Group and the Company had investments in listed equity securities in Hong Kong with a carrying value of HK$29,898,000 as at 31 December 2013. The trading of these securities was suspended during the year ended 31 December 2013. The directors of the Company considered that there was no material change in the fair value of the listed equity investments. However, there were no satisfactory audit procedures which we could adopt to ascertain the fair value of these available-for-sale investments as at 31 December 2013. Any adjustments found to be necessary to the fair value of these available-for-sale investments as at 31 December 2013 would have a consequential effect on the Group's and the Company's net assets as at 31 December 2013, the Group's profit for the year ended 31 December 2014 and related disclosures in these financial statements.

QUALIFIED OPINION

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraphs, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Crowe Horwath (HK) CPA Limited
Certified Public Accountants
Hong Kong, 27 March 2015

Sum Yuk Fan, Sharon
Practising Certificate Number P04967

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2014

	Note	2014 HK$'000	2013 HK$'000
Revenue	7	**507,963**	510,959
Cost of sales		**(308,573)**	(310,272)
Gross profit		**199,390**	200,687
Waiver of loan interest and interest payables	30	**–**	59,748
Other operating income	9	**30,990**	40,467
Gain on disposal of subsidiaries	39	**116,783**	–
Reversal of impairment loss recognised on trade and other receivables	26	**337**	21,071
Selling and distribution expenses		**(29,286)**	(23,309)
Administrative expenses		**(146,300)**	(100,053)
Finance costs	10	**(21,670)**	(15,352)
Change in fair value of investment property	20	**605**	3,054
Change in fair value of derivative financial instruments	34	**31,482**	(7,621)
Net gain on financial assets at fair value through profit or loss	22	**94,747**	–
Net gain on disposal of available-for-sale investments		**40,647**	6,823
Impairment loss recognised on:–			
– trade and other receivables	26	**(3,059)**	(30,590)
– available-for-sale investments	22	**(16,353)**	–
– goodwill	21	**(6,964)**	
Share of profit (losses) of associates	24	**61**	(2,268)
Profit before taxation		**291,410**	152,657
Income tax	11	**(61,775)**	(46,697)
Profit for the year	12	**229,635**	105,960
Attributable to:			
Owners of the Company		**203,622**	61,419
Non-controlling interests		**26,013**	44,541
		229,635	105,960
Earnings per share (HK cents):	16		
Basic		**16.50**	5.53
Diluted		**14.11**	5.53

The notes on pages 77 to 191 form part of these financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2014

	Note	2014 HK$'000	2013 HK$'000
Profit for the year		**229,635**	105,960
Other comprehensive income for the year			
Items that may be reclassified subsequently to profit or loss:			
Exchange difference on translation of financial statements of overseas subsidiaries:–			
Exchange difference arising during the year		**(6,010)**	16,647
Reclassification adjustments relating to subsidiaries disposed of during the year		**(11,471)**	–
		(17,481)	16,647
Available-for-sale investments:			
Net gain arising on revaluation of available-for-sale investments during the year		**15,147**	9,147
Reclassification upon impairment		**16,353**	–
Reclassification adjustments relating to available-for-sale investments disposed of during the year		**(40,647)**	(1,110)
		(9,147)	8,037
Share of other comprehensive income of associates	24	**(558)**	2,117
Other comprehensive income for the year, net of income tax		**(27,186)**	26,801
Total comprehensive income for the year		**202,449**	132,761
Attributable to:			
Owners of the Company		**179,503**	79,960
Non-controlling interests		**22,946**	52,801
		202,449	132,761

The notes on pages 77 to 191 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2014

	Note	2014 HK$'000	2013 HK$'000
Non-current assets			
Property, plant and equipment	17	**159,310**	161,433
Deposits paid for acquisition of property, plant and equipment		**5,282**	272
Deposits paid for acquisition of prepaid lease payments	18	**–**	40,701
Prepaid lease payments	18	**25,110**	41,381
Concession intangible assets	19	**546,766**	622,630
Investment property	20	**21,457**	21,037
Other intangible assets	21	**176,111**	59,763
Available-for-sale investments	22	**26,016**	95,781
Interest in associates	24	**39,563**	32,680
Deferred tax assets	37	**1,327**	1,226
		1,000,942	1,076,904
Current assets			
Inventories	25	**184,036**	24,581
Financial assets at fair value through profit or loss	22	**238,527**	–
Trade and other receivables	26	**171,682**	108,364
Prepaid lease payments	18	**1,053**	1,307
Amounts due from customers for contract works	29	**12,898**	8,790
Cash held by financial institutions	27	**5,268**	8,797
Bank balances and cash	27	**318,798**	241,767
		932,262	393,606
Current liabilities			
Trade and other payables	28	**157,947**	157,459
Amounts due to customers for contract works	29	**58,421**	11,693
Bank borrowings	30	**49,258**	42,116
Other loans	31	**13,619**	65,722
Amounts due to non-controlling shareholders of subsidiaries	32	**59,532**	3,803
Loans from associates	33	**4,657**	3,178
Convertible bonds	34	**103,519**	107,352
Tax payables		**38,495**	41,508
		485,448	432,831
Net current assets (liabilities)		**446,814**	(39,225)
Total assets less current liabilities		**1,447,756**	1,037,679

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2014

	Note	2014 HK$'000	2013 HK$'000
Capital and reserves			
Share capital	*35*	**666,166**	555,166
Share premium and reserves		**273,411**	(11,492)
Equity attributable to owners of the Company		**939,577**	543,674
Non-controlling interests		**330,417**	282,827
TOTAL EQUITY		**1,269,994**	826,501
Non-current liabilities			
Bank borrowings	*30*	**33,598**	26,710
Other loans	*31*	**59,270**	52,619
Government grants	*36*	**19,237**	95,980
Deferred tax liabilities	*37*	**65,657**	35,869
		177,762	211,178
		1,447,756	1,037,679

Approved and authorised for issue by the board of directors on 27 March 2015:

Wang De Yin
Chairman and Chief Executive Officer

Liu Feng
Director

The notes on pages 77 to 191 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

At 31 December 2014

	Note	2014 HK$'000	2013 HK$'000
Non-current assets			
Investments in subsidiaries	23	**2**	2
Available-for-sale investments	22	**26,016**	95,781
		26,018	95,783
Current assets			
Financial assets at fair value through profit or loss	22	**238,527**	–
Other receivables	26	**4**	27,293
Amounts due from subsidiaries	45(a)	**665,315**	526,524
Cash held by financial institutions	27	**1,389**	8,766
Bank balances and cash	27	**23,593**	248
		928,828	562,831
Current liabilities			
Other payables	28	**5,891**	3,252
Convertible bonds	34	**103,519**	107,352
Tax payables		**3,793**	–
		113,203	110,604
Net current assets		**815,625**	452,227
Total assets less current liabilities		**841,643**	548,010
Capital and reserves			
Share capital	35	**666,166**	555,166
Share premium and reserves	35	**163,968**	(7,156)
Total equity		**830,134**	548,010
Non-current liabilities			
Deferred tax liabilities	37	**11,509**	–
		841,643	548,010

Approved and authorised for issue by the board of directors on 27 March 2015:

Wang De Yin
Chairman and Chief Executive Officer

Liu Feng
Director

The notes on pages 77 to 191 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

	Attributable to owners of the Company									
	Share capital *HK$'000* *(note35(b))*	Share premium *HK$'000* *(note 35(c))*	Revaluation reserve *HK$'000* *(note 3(g))*	Translation reserve *HK$'000* *(note 35(c))*	Reserve fund *HK$'000* *(note 35(c))*	Investment revaluation reserve *HK$'000* *(note 35(c))*	Accumulated losses *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total equity *HK$'000*
Balance at 1 January 2013	555,166	484,002	3,553	46,114	14,445	1,110	(639,447)	464,943	219,904	684,847
Changes in equity for 2013:										
Profit for the year	–	–	–	–	–	–	61,419	61,419	44,541	105,960
Other comprehensive income for the year:										
Exchange difference arising on translation	–	–	–	8,387	–	–	–	8,387	8,260	16,647
Share of other comprehensive income of associates	–	–	–	2,117	–	–	–	2,117	–	2,117
Fair value gain on available-for-sale investments	–	–	–	–	–	9,147	–	9,147	–	9,147
Reclassification adjustments relating to available-for-sale investment disposed of during the year	–	–	–	–	–	(1,110)	–	(1,110)	–	(1,110)
Total comprehensive income for the year	–	–	–	10,504	–	8,037	61,419	79,960	52,801	132,761
Capital contribution from non-controlling shareholders of a newly incorporated subsidiary (note 23)	–	–	–	–	–	–	–	–	12,492	12,492
Additional equity interest of a subsidiary (note 23)	–	–	–	–	(1,229)	–	–	(1,229)	(2,370)	(3,599)
Transfers to reserve funds	–	–	–	–	9,110	–	(9,110)	–	–	–
At 31 December 2013	555,166	484,002	3,553	56,618	22,326	9,147	(587,138)	543,674	282,827	826,501

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

	Attributable to owners of the Company									
	Share capital *HK$'000* *(note35(b))*	Share premium *HK$'000* *(note 35(c))*	Revaluation reserve *HK$'000* *(note 3(g))*	Translation reserve *HK$'000* *(note 35(c))*	Reserve fund *HK$'000* *(note 35(c))*	Investment revaluation reserve *HK$'000* *(note 35(c))*	Accumulated losses *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total equity *HK$'000*
Balance at 1 January 2014	555,166	484,002	3,553	56,618	22,326	9,147	(587,138)	543,674	282,827	826,501
Changes in equity for 2014:										
Profit for the year	–	–	–	–	–	–	203,622	203,622	26,013	229,635
Other comprehensive income for the year:										
Exchange difference arising on translation	–	–	–	(2,943)	–	–	–	(2,943)	(3,067)	(6,010)
Disposal of interests in subsidiaries (note 39)	–	–	–	(11,471)	–	–	–	(11,471)	–	(11,471)
Share of other comprehensive income of associates	–	–	–	(558)	–	–	–	(558)	–	(558)
Fair value gain on available-for-sale investments	–	–	–	–	–	15,147	–	15,147	–	15,147
Reclassification on impairment	–	–	–	–	–	16,353	–	16,353	–	16,353
Reclassification adjustments relating to available-for-sale investment disposed of during the year	–	–	–	–	–	(40,647)	–	(40,647)	–	(40,647)
Total comprehensive income for the year	–	–	–	(14,972)	–	(9,147)	203,622	179,503	22,946	202,449
Placing of new shares	111,000	111,000	–	–	–	–	–	222,000	–	222,000
Transaction costs attributable to issue of shares		(5,600)	–	–	–	–	–	(5,600)	–	(5,600)
Capital contribution from non-controlling shareholders of a subsidiary (note 23)	–	–	–	–	–	–	–	–	20,152	20,152
Capital contribution from non-controlling shareholders of a newly incorporated subsidiary	–	–	–	–	–	–	–	–	3,392	3,392
Acquisition of subsidiaries (note 38 (2))	–	–	–	–	–	–	–	–	8,457	8,457
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	(7,357)	(7,357)
Transfers to reserve funds	–	–	–	–	7,359	–	(7,359)	–	–	–
At 31 December 2014	666,166	589,402	3,553	41,646	29,685	–	(390,875)	939,577	330,417	1,269,994

The notes on pages 77 to 191 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	2014 HK$'000	2013 HK$'000
Operating activities		
Profit before taxation	**291,410**	152,657
Adjustments for:		
Depreciation of property, plant and equipment	**13,279**	10,634
Amortisation of prepaid lease payments	**1,297**	1,286
Amortisation of concession intangible assets	**32,412**	29,451
Amortisation of other intangible assets	**3,899**	583
Impairment loss recognised on:		
– trade and other receivables	**3,059**	30,590
– available-for-sale investments	**16,353**	–
– goodwill	**6,964**	–
Reversal of impairment loss recognised on trade and other receivables	**(337)**	(21,071)
Concession intangible assets written off	**608**	82
Change in fair value of investment property	**(605)**	(3,054)
Change in fair value of derivative financial instruments	**(31,482)**	7,621
Finance costs	**21,670**	15,352
Wavier of loan interest and interest payables	**–**	(59,748)
Interest income	**(19,233)**	(26,103)
Reversal of government grants	**4,920**	–
Government grant income	**(214)**	(3,223)
(Gain) loss on disposal of property, plant and equipment and prepaid land lease	**82**	(2,569)
Net gain on disposal of available-for-sale investments	**(40,647)**	(6,823)
Net gain on financial assets at fair value through profit or loss	**(94,747)**	–
Gain on disposal of subsidiaries	**(116,783)**	–
Share of (profit) losses of associates	**(61)**	2,268
Changes in working capital:		
(Increase) decrease in inventories	**(114,133)**	43,373
Decrease (increase) in trade and other receivables	**34,337**	(21,392)
Increase in amounts due from customers for contract works	**(4,108)**	(6,035)
Increase in trade and other payables	**29,249**	6,386
Increase (decrease) in amounts due to customers for contract works	**46,728**	(9,220)
Cash generated from operations	**83,917**	141,045
Income taxes paid in the PRC	**(43,967)**	(24,699)
Net cash generated from operating activities	**39,950**	116,346

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	Note	2014 HK$'000	2013 HK$'000
Investing activities			
Purchase of property, plant and equipment		**(81,694)**	(28,912)
Deposits paid for acquisition of property, plant and equipment		**(5,010)**	(272)
Deposits paid for acquisition of prepaid lease payments		**–**	(40,701)
Proceeds from disposal of property, plant and equipment and prepaid lease payment		**600**	4,196
Acquisition of concession intangible assets		**(58,830)**	(102,370)
Acquisition of other intangible assets		**(29,010)**	–
Purchase of available-for-sale investments		**(26,879)**	(68,800)
Proceeds from disposal of available-for-sale investments		**111,791**	56,318
Purchase of financial assets at fair value through profit or loss		**(203,434)**	–
Proceeds from disposal of financial assets at fair value through profit or loss		**59,654**	–
Acquisition of subsidiaries, net of cash acquired	38	**(82,974)**	(44,974)
Disposal of subsidiaries, net of cash disposed of	39	**126,773**	–
Capital contribution to an associate		**(7,540)**	–
Interest received		**19,233**	26,103
Dividend received from an associate		**2,233**	–
Government grants received		**214**	6,012
Refund of government grants received		**(61,804)**	–
Net cash used in investing activities		**(236,677)**	(193,400)
Financing activities			
Proceeds from new bank borrowings and other loans		**58,207**	49,359
Repayment of bank borrowings and other loans		**(51,953)**	(49,766)
Advances from (repayment to) non-controlling shareholders of a subsidiary		**55,729**	(305)
Capital contribution from non-controlling shareholders		**23,544**	12,492
Dividend paid to non-controlling shareholders of a subsidiary		**(7,357)**	–
Advance from associates		**1,092**	247
Proceeds from issue of new shares		**216,400**	–
Redemption of convertible bonds		**(104,500)**	–
Proceeds from issue of convertible bonds		**100,000**	100,000
Interest paid		**(17,899)**	(26,358)
Net cash generated from financing activities		**273,263**	85,669
Net increase in cash and cash equivalents		**76,536**	8,615
Cash and cash equivalents at 1 January		**250,564**	239,249
Effect of foreign exchange rates changes		**(3,034)**	2,700
Cash and cash equivalents at 31 December		**324,066**	250,564

The notes on pages 77 to 191 form part of these financial statements.

1. GENERAL

China Water Industry Group Limited (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

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

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 23.

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

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

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)	Investment Entities
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
HK (IFRIC) – Int 21	Levies

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 HKFRS 10, HKFRS 12 and HKAS 27 (2011) Investment Entities

The amendments provide consolidation relief to those parents which qualify to be an investment entity as defined in the amended HKFRS 10. Investment entities are required to measure their subsidiaries at fair value through profit or loss. These amendments do not have an impact on these financial statements as the Company does not qualify to be an investment entity.

Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities

The amendments to HKAS 32 clarify the offsetting criteria in HKAS 32. The amendments do not have an impact on these financial statements as they are consistent with the policies already adopted by the Group.

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

Amendments to HKAS 36 Recoverable Amount Disclosures for Non-Financial Assets

The amendments to HKAS 36 modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset or cash-generating unit the recoverable amount of which is based on fair value less costs of disposal. The Group early adopted the amendments in the annual financial statements for the year ended 31 December 2013.

Amendments to HKAS 39 Novation of Derivatives and Continuation of Hedge Accounting

The amendments to HKAS 39 provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendments do not have an impact on these consolidated financial statements as the Group does not have any derivatives that are subject to novation.

HK (IFRIC) – Int 21 Levies

The Interpretation provides guidance on when a liability to pay a levy imposed by a government should be recognised. The amendments do not have an impact on these financial statements as the Group does not have any levy arrangements.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the HKICPA and accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance, which for this financial year and the comparative period continue to be those of the predecessor Hong Kong Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the new Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2014 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates.

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

– investment property (note 20)

– available-for-sale investments (note 22)

– financial assets at fair value through profit or loss (note 22)

– embedded derivatives in convertible bonds (note 34)

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 4.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Business combinations

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Goodwill

Goodwill arising on an acquisition of a business is carried at cost less accumulated impairment losses (note 3(p)), if any.

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

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

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

(e) Investments in subsidiaries and non-controlling interests

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

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

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

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

Changes in the Group's ownership interests in existing subsidiaries

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Property, plant and equipment

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

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

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

(i) Investment property

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Concession intangible assets

When the Group has a right to charge for usage of concession infrastructure, it recognises concession intangible assets at fair value upon initial recognition. The concession intangible assets representing water supply and sewage treatment operating rights are carried at cost less accumulated amortisation and any accumulated impairment losses (note 3(p)). At the end of the concession period, the Group either needs to dispose of the water supply and sewage treatment infrastructure or transfer these assets to the local government.

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

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

(k) Exclusive rights

The Company and its subsidiaries acquired the exclusive rights of collection and utilization of landfill gas in connection with the acquisitions of Nanjing Feng Shang New Technology Limited Liability Company ("Nanjing Feng Shang"), Shenzhen City Li Sai Industrial Development Limited ("Shenzhen Li Sai") and Hunan Huiming Environmental Technology Limited ("Huiming Technology"). The exclusive rights were initially recognized at fair value at the acquisition date. The rights have an original period of 12 years, 17 years and 9 years, respectively. These rights, together with exclusive rights acquired separately with finite period (note 23), are carried at cost less accumulated amortisation and any accumulated impairment losses (note 3(p)).

The exclusive rights of collection and utilization of landfill gas are amortised to write off their cost, over the above terms of the operating rights on a straight-line basis.

(l) Leasehold land and buildings for own use

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Construction contracts

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

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

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

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

(n) 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.

Financial assets at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in profit or loss, and are subsequently remeasured at their fair values. Gains and losses arising from changes in the fair values are included in profit or loss in the period in which they arise.

The net gain or loss recognised in profit or loss does not include any dividends or interest earned on these investments as these are recognised in accordance with the policies set out in note 3(bb).

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Other investments in equity securities

The Group's and the Company's policies for investments in equity securities, other than investments in subsidiaries and associates and financial assets at fair value through profit or loss, are as follows:

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

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any other categories under financial assets. They are included in non-current assets unless management intends to dispose of them within twelve months from the end of reporting period.

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

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

Dividend income from these investments is recognised in profit or loss in accordance with the policy set out in note 3(bb). When these investments are derecognised or impaired (see note 3(p)), the cumulative gain or loss is reclassified from equity to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Impairment of assets

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Impairment of assets *(Continued)*

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Impairment of assets *(Continued)*

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

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

(ii) Impairment of other assets

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

– property, plant and equipment;

– prepaid lease payments;

– goodwill;

– other intangible assets;

– Investments in subsidiaries in the Company's statement of financial position; and

– deposits paid.

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

– Calculation of recoverable amount

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Impairment of assets *(Continued)*

(ii) Impairment of other assets (Continued)

– Recognition of impairment losses

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

– Reversals of impairment losses

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

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

(q) Inventories

Inventories are carried at the lower of cost and net realisable value. Cost and net realisable value are determined as follows:

(i) Properties held for/under development for sale

The cost of properties held for/under development for sale comprises specifically identified cost, including the acquisition cost of land, aggregate cost of development, materials and supplies, wages and other direct expenses, and an appropriate proportion of overheads and borrowing costs capitalised. Net realisable value represents the estimated selling price, based on prevailing market conditions, less estimated costs of completion and costs to be incurred in selling the property.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Inventories *(Continued)*

(ii) Trading goods

Cost is calculated using the weighted average method and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

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

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

(r) Trade and other receivables

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

(s) Cash and cash equivalents

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

(t) Borrowings

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

(u) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 3(ff)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) Convertible bonds

(i) Convertible bonds that contain liability and equity components

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

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

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

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

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

(ii) Other convertible bonds

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) Convertible bonds *(Continued)*

(ii) Other convertible bonds (Continued)

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

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

(w) Derivative financial instruments

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

(x) Equity-settled share-based payment transactions

(i) Share options granted to employees

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

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

(ii) Share options granted to eligible persons

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(y) Other employee benefits

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

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

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

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

(ii) Termination benefits

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

(z) Government grants

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(aa) Taxation

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(aa) Taxation *(Continued)*

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

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

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

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

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(bb) Revenue recognition

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

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

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(bb) Revenue recognition *(Continued)*

Revenue arising from the sale of properties held for sale is recognised upon the later of the signing of the sale and purchase agreement and the issue of an occupation permit/a completion certificate by the relevant government authorities, which is taken to be the point in time when the risks and rewards of ownership of the property have passed to the buyer. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the statement of financial position under forward sales deposits received.

Consultancy fee, handling charges and cleaning income are recognised when services are provided.

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

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

(cc) Foreign currencies

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(cc) Foreign currencies *(Continued)*

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

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

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

(dd) Leased assets

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

(i) Classification of assets leased to the Group

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(dd) Leased assets *(Continued)*

(ii) Operating lease charges

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

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

(ee) Borrowing costs

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

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

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

(ff) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(ff) Financial guarantees issued, provisions and contingent liabilities *(Continued)*

(i) Financial guarantees issued (Continued)

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within trade and other payables. The fair value of financial guarantees issued at the time of issuance 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. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 3(ff)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(gg) Related parties

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

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

(ii) has significant influence over the Group; or

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(gg) Related parties *(Continued)*

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

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

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

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

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

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

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

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

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

(hh) Segment reporting

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

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Critical judgments in applying the entity's accounting policies

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

(i) Buildings and land use rights

Despite the Group has paid the full purchase consideration as detailed in notes 17 and 18, certain of the Group's rights to use of the buildings and land were not granted formal titles from the relevant government authorities. The directors of the Company are of the opinions that the risks and rewards of using these assets have been transferred to the Group and the absence of formal titles to these buildings and land use rights do not impair the value of the relevant properties to the Group.

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

As detailed in note 30, all equity interests of Danzhou City Water owned by the Group were frozen by Higher People's Court of Hainan Province from 15 December 2010 (the "Court Order") to 14 December 2013. The directors of Company are of the opinion that after having sought the legal advice from the Company's lawyer, the control of Danzhou City Water during this period still existed, accordingly, the asset, liabilities and financial results of Danzhou City Water has been incorporated in the consolidated financial statements for the years ended 31 December 2014 and 2013.

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

Key sources of estimation uncertainty

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

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

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

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

As at 31 December 2014, the carrying amount of plant and equipment was approximately HK$159,310,000 (net of accumulated impairment loss of approximately HK$21,096,000) (2013: the carrying amount of plant and equipment was approximately HK$161,433,000 (net of accumulated impairment loss of approximately HK$21,096,000)). Determining whether property, plant and equipment are impaired requires an estimation of the recoverable amount of the property, plant and equipment. Such estimation was based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results.

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

As at 31 December 2014, the carrying amount of prepaid lease payments was approximately HK$26,163,000 (net of accumulated impairment loss of approximately HK$2,804,000) (2013: the carrying amount of prepaid lease payments was approximately HK$42,688,000 (net of accumulated impairment loss of approximately HK$2,804,000)). Determining whether prepaid lease payments are impaired requires an estimation of the recoverable amount of the prepaid lease payments. Such estimation was based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results.

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

Key sources of estimation uncertainty *(Continued)*

(iv) Impairment loss recognised in respect of trade receivables

The Group performs ongoing credit evaluations of its customers and adjusts credit limits based on payment history and the customer's current credit-worthiness, as determined by review of their current credit information. The Group continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses based upon its historical experience. Credit losses have historically been within the Group's expectations and the Group will continue to monitor the collections from customers and maintain an appropriate level of estimated credit losses. As at 31 December 2014, the carrying amount of trade receivables was approximately HK$30,253,000 (2013: HK$33,186,000) (net of accumulated impairment losses of approximately HK$5,659,000 (2013: HK$7,604,000)).

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

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2014, the carrying amounts of other receivables and loans receivables are HK$11,435,000 (2013: HK$29,183,000) and HK$15,003,000 (2013: HK$27,000,000) respectively (net of accumulated impairment losses of HK$4,265,000 (2013: HK$9,090,000) and HK$54,844,000 (2013: HK$54,844,000) respectively).

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

The Group determines whether an asset is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the asset is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. A change in the estimated future cash flows and/or the discount rate applied will result in an adjustment to the estimated impairment provision. As at 31 December 2014, the carrying amounts of concession intangible assets are HK$546,766,000 (2013: HK$622,630,000) (net of accumulated impairment losses of HK$46,335,000 (2013: HK$46,747,000)). As at 31 December 2014, the carrying amounts of exclusive rights are HK$150,330,000 (2013: HK$40,828,000) (net of nil accumulated impairment losses).

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

Key sources of estimation uncertainty *(Continued)*

(vii) Impairment of available-for-sales investments

The Group determines that available-for-sale investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the duration and extent to which the fair value of the investment is less than its cost. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, change in technology and operational and financing cash flows. As at 31 December 2014, the carrying amount of available-for-sale investments was approximately HK$26,016,000 (2013: HK$95,781,000).

(viii) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2014, the carrying amount of goodwill was HK$25,781,000 (2013: HK$18,935,000) (net of accumulated impairment losses of HK$247,613,000 (2013: HK$251,933,000)). Details of impairment testing on goodwill are set out in note 21.

(ix) Revenue from construction contracts

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

5. CAPITAL MANAGEMENT

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

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

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

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

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

The gearing ratios as at 31 December 2014 and 2013 were as follows:

	2014 ***HK$'000***	2013 *HK$'000*
Bank borrowings	**82,856**	68,826
Other loans	**72,889**	118,341
Amounts due to non-controlling shareholders of subsidiaries	**59,532**	3,803
Loans from associates	**4,657**	3,178
Convertible bonds	**103,519**	107,352
Total debt	**323,453**	301,500
Less: Cash held by financial institutions	**(5,268)**	(8,797)
bank balances and cash	**(318,798)**	(241,767)
Cash and cash equivalents	**(324,066)**	(250,564)
Net debt	**(613)**	50,936
Equity attributable to owners of the Company	**939,577**	543,674
Gearing ratio	**Not applicable**	9.37%

6. FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS

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

(a) Credit risk

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

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

(iii) The Group's concentration of credit risk by geographical locations is wholly in the PRC, accounted for the entire total trade receivables as at 31 December 2014 and 2013.

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

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

(a) Credit risk *(Continued)*

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

(vi) As at 31 December 2014, the Group had credit risk on loan receivables. The carrying amount of the loan receivables are approximately HK$15,003,000 (2013: HK$27,000,000) (net of accumulated impairment losses of HK$54,844,530 (2013: HK$54,844,530)).

(vii) As at 31 December 2014, the Group and the Company had credit risk arising from available-for-sale investments as 0% (2013: 31%) of the listed securities cannot be traded in the Stock Exchange. For other financial assets, such as cash held at financial institutions, financial assets at fair value through profit or loss and available-for-sale investments, the Group limited its exposure to credit risk by transacting the majority of its securities with broker-dealers and regulated exchanges with high credit rating of which the Group considered to be well established. All transactions in listed securities are settled/paid for upon delivery using approved and reputable brokers.

(viii) In respect of amounts due from subsidiaries, the Company has concentration of credit risk as 92% (2013: 89%) of the amounts due from subsidiaries are owed from 4 (2013: 4) subsidiaries.

(ix) Except for the financial guarantee given by the Company as set out in note 46, the Group and the Company do not provide any other guarantees which would expose the Group or the Company to credit risk. The maximum exposure to credit risk in respect of this financial guarantee at the end of the reporting period is disclosed in note 46.

(b) Liquidity risk

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

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

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

(b) Liquidity risk *(Continued)*

The Group

2014

	On demand HK$'000	Within 1 year HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	More than 5 years HK$'000	Total contractual undiscounted cash flow HK$'000	Carrying amount HK$'000
Non-derivative financial liabilities							
Trade and other payables	10,397	74,962	–	–	–	85,359	85,359
Bank borrowings and other loans	21,734	42,551	21,020	18,093	65,165	168,563	155,745
Amounts due to non-controlling shareholders	59,532	–	–	–	–	59,532	59,532
Loans from associates	1,351	3,592	–	–	–	4,943	4,657
Convertible bonds	–	104,500	–	–	–	104,500	103,519
	93,014	225,605	21,020	18,093	65,165	422,897	408,812

2013

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

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

(b) Liquidity risk *(Continued)*

The Company

2014

	On demand	Within 1 year	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total contractual undiscounted cash flow	Carrying amount
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities							
Other payables	–	5,891	–	–	–	5,891	5,891
Convertible bonds	–	104,500	–	–	–	104,500	103,519
	–	110,391	–	–	–	110,391	109,410
Financial guarantee issued:							
Maximum amount guaranteed	–	–	–	15,128	–	15,128	–

2013

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

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

(c) Market risk

(i) Currency risk

Exposure to currency risk

Other than the subsidiaries established in the PRC whose functional currency is RMB, the Company and its subsidiaries' functional currency is HK$. However, certain bank balances and other receivables are denominated in currencies other than HK$ held by the Company and its subsidiaries established in Hong Kong. Foreign currencies are also used to settle expenses for overseas operations.

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

	2014	2013
	HK$'000	*HK$'000*
The Group		
Assets		
– USD	**225**	129
– RMB	**4,116**	10,627

	2014	2013
	HK$'000	*HK$'000*
The Company		
Assets		
– USD	**225**	129

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

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

(c) Market risk *(Continued)*

(i) *Currency risk (Continued)*

Sensitivity analysis

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

The Group

	2014		2013	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax and accumulated losses**	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and accumulated losses
		HK$'000		*HK$'000*
Renminbi	**5%**	**172**	5%	444
	(5)%	**(172)**	(5)%	(444)

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which exposes the Group to foreign currency risk at the end of the reporting period. As HK$ is pegged to USD, the directors do not expect any significant movements in the USD/HK$ exchange rate. The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the end of next annual reporting period. The analysis is performed on the same basis for 2013.

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

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

(c) Market risk *(Continued)*

(ii) Interest rate risk

The Group is primarily exposed to fair value interest rate risk in relation to bank borrowings, other loans, amounts due to non-controlling shareholders of subsidiaries, loans from associates and convertible bonds (see notes 30, 31, 32, 33 and 34 for details) for the years ended 31 December 2014 and 2013. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated.

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank borrowings and other loans (see notes 30 and 31 for details) for the years ended 31 December 2014 and 2013.

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

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

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

(c) Market risk *(Continued)*

(ii) Interest rate risk (Continued)

	The Group			
	2014		2013	
	Effective interest rates		Effective interest rates	
	%	***HK$'000***	%	*HK$'000*
Fixed rate borrowings:				
Bank borrowings	**5.94-7.38%**	**33,094**	5.94-6.9%	44,148
Other loans	**0-20%**	**60,637**	0-20%	81,121
Amounts due to non-controlling shareholders of subsidiaries	**0%**	**59,532**	0%	3,803
Loan from an associate	**0%-6.15%**	**4,657**	6.15%	3,178
Convertible bonds	**30.21%**	**103,519**	24.67%	107,352
		261,439		239,602
Variable rate borrowings:				
Bank borrowings	**6.5%-7.4%**	**49,762**	6.15%-7.8%	24,678
Other loans	**6.45%-6.88%**	**12,252**	5.05%	37,220
		62,014		61,898
Total borrowings		**323,453**		301,500
Fixed rate borrowings as a percentage of total borrowings		**81%**		79%

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

(c) Market risk *(Continued)*

(ii) Interest rate risk (Continued)

	The Company			
	2014		2013	
	Effective interest rates		Effective interest rates	
	%	***HK$'000***	%	*HK$'000*
Fixed rate borrowings:				
Convertible bonds	**30.21%**	**103,519**	24.67%	107,352
Total borrowings		**103,519**		107,352
Fixed rate borrowings as a percentage of total borrowings		**100%**		100%

Sensitivity analysis

If interest rates had been 50 basis points (2013: 50 basis points) higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2014 would decrease/increase by approximately HK$261,000 (2013: HK$232,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings and other loans.

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

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

(c) Market risk *(Continued)*

(iii) Equity price risk

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

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date.

Available-for-sale investments

If the prices and volatility of the respective equity instruments had been 10% (2013:10%) higher/lower, the investment revaluation reserve would increase/decrease by HK$2,602,000 (2013: investment revaluation reserve would increase by HK$9,578,000) for the Group and the Company as a result of the changes in fair value of available-for-sale investments.

Financial assets at fair value through profit or loss

If the prices of the respective equity instruments had been 10% (2013:10%) higher/lower, the Group and the Company's profit after tax would increase/decrease by HK$19,917,000 (2013: HK$nil) for the Group as a result of the changes in fair value of financial assets at fair value through profit or loss.

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

(d) Fair value measurements recognised in the statement of financial position

(i) Financial instruments carried at fair value

Fair value hierarchy

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

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

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

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

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

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group takes reference to the fair value of the financial assets based on the net asset value of the financial assets calculated on the last day of each calendar month and reported by the fund manager or engaged third party qualified valuers to perform the valuation. The Company's directors work closely with qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

Information about the valuation techniques and inputs used in determining the fair value of the conversion option of the convertible bonds are disclosed in note 34 to the financial statements.

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

(d) Fair value measurements recognised in the statement of financial position *(Continued)*

(i) Financial instruments carried at fair value (Continued)

2014	The Group				The Company			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Recurring fair value measurements								
Assets								
Financial assets at fair value through profit or loss	59,260	–	179,267	238,527	59,260	–	179,267	238,527
Available-for-sale investments	26,016	–	–	26,016	26,016	–	–	26,016
Liabilities								
Conversion feature of the convertible bond	–	–	46	46	–	–	46	46

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

During the years ended 31 December 2014 and 2013, there were no significant transfers between instruments levels.

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

(d) Fair value measurements recognised in the statement of financial position *(Continued)*

(i) Financial instruments carried at fair value (Continued)

Information about Level 3 fair value measurements:–

	Valuation technique	Unobservable inputs	Input values
Financial assets at fair value through profit or loss			
Unlisted US dollar based investment fund	Net asset value	n/a	n/a

As disclosed in note 22 to the consolidated financial statements, the Group had an investment in listed equity securities in Hong Kong with a carrying value of HK$29,898,000 as at 31 December 2013.

The trading of the listed equity investments was suspended during the year ended 31 December 2013. The directors of the Company considered that there was no material change in the fair value of the listed equity investments.

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

As for the change in Level 3 instruments for the years ended 31 December 2014 and 2013, please refer to notes 22 and 34.

The most significant inputs in determining the fair value of conversion rights of convertible bonds are market price of the Company and volatility rate of market price of the Company. If the market price had been 10% higher/lower than management's estimates at 31 December 2014, it would have an increase/decrease by HK$2,723,000/HK$46,000 (2013: HK$7,284,000/HK$6,123,000) in the fair value of conversion rights. If the volatility rate had been of 5% higher/lower than management's estimates at 31 December 2014, it would have an increase/decrease by HK$96,000/HK$30,000 (2013: HK$1,635,000/HK$1,641,000) in the fair value of conversion rights.

(ii) Financial instruments carried at other than fair value

The fair value of the liability component of the convertible bonds at 31 December 2014 and 2013 amounted to approximately HK$103.8 million and HK$101.6 million, respectively. The fair value is calculated using discounted cash flow analysis with current market interest rate offered to the Group and is within Level 3 of the fair value hierarchy.

The carrying amounts of the Group's and the Company's other financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2014 and 2013.

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

(e) Estimation of fair values

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

(i) Interest-bearing borrowings

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

(ii) Financial assets at fair value through profit or loss

The level 3 instruments include the investment funds stated with reference to the net asset value provided by the respective managers of the investment funds.

(iii) Derivatives

The estimates of the fair value of the conversion option embedded in the convertible bonds are determined based on valuation models at the end of the reporting period. Details of the assumptions adopted are disclosed in note 34.

7. REVENUE

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

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

	2014	2013
	HK$'000	*HK$'000*
Water supply services	**159,217**	133,595
Sewage treatment services	**45,763**	47,035
Water supply related installation and construction income	**222,490**	222,295
Water supply and sewage treatment infrastructure construction income *(note 19)*	**60,803**	102,369
Others	**19,690**	5,665
	507,963	510,959

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

8. SEGMENT REPORTING

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

During the year ended 31 December 2014, the Group acquired Shenzhen Li Sai and Huiming Technology, which are principally engaged in the provision of exploitation and sale of renewable energy in PRC (details of acquisition refer to note 38). Thus, the executive directors consider provision of exploitation and sale of renewable energy in PRC is a new reportable and operating segment upon the acquisition. During the year ended 31 December 2013, there was no segment information disclosed as the Group's operation only comprised provision of water supply, sewage treatment and construction services (as defined below) and it is determined that the Group has only one operating segment. After the acquisition of Shenzhen Li Sai and Huiming Technology, the executive directors separately assessed the segment results of water supply, sewage treatment and construction services from exploitation and sale of renewable energy (as defined below) as well as the corporate income and expenses. Figures in segment information for the year ended 31 December 2013 have been re-presented for comparative purposes.

The Group has identified the following reportable segments:

(i) "Provision of water supply, sewage treatment and construction services" segment, which derives revenues primarily from the provision of water supply and sewage treatment operations and related construction services; and

(ii) "Exploitation and sale of renewable energy" segment, which derives revenues primarily from sale of electricity from biogas power plants.

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

8. SEGMENT REPORTING *(Continued)*

Segment turnover and results

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

For the year ended 31 December 2014

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

8. SEGMENT REPORTING *(Continued)*

Segment turnover and results *(Continued)*

For the year ended 31 December 2013 (re-presented)

	Provision of water supply, sewage treatment and construction services *HK$'000*	Exploitation and sale of renewable energy *HK$'000*	Total *HK$'000*
Reportable segment revenue	505,294	5,665	510,959
Reportable segment profit	170,752	2,516	173,268
Unallocated corporate expenses			(15,334)
Interest income			7,926
Imputed interest on convertible bonds			(3,483)
Reversal of impairment loss recognised on trade and other receivables			19,078
Change in fair value of derivative financial instruments			(7,621)
Net gain on disposal of investments			6,823
Impairment loss recognised on trade and other receivable			(28,000)
Profit before taxation			152,657

8. SEGMENT REPORTING *(Continued)*

Other segment information

For the year ended 31 December 2014

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

8. SEGMENT REPORTING *(Continued)*

Other segment information *(Continued)*

For the year ended 31 December 2013 (re-presented)

	Provision of water supply, sewage treatment and construction services *HK$'000*	Exploitation and sale of renewable energy *HK$'000*	Corporate *HK$'000*	Total *HK$'000*
Interest income	18,173	4	7,926	26,103
Interest expenses	(11,722)	(147)	(3,483)	(15,352)
Share of losses of associates	(2,268)	–	–	(2,268)
Depreciation of property, plant and equipment	(8,757)	(206)	(1,671)	(10,634)
Amortisation of:				
– Prepaid lease payments	(1,286)	–	–	(1,286)
– Concession intangible assets	(29,451)	–	–	(29,451)
– Other intangible assets	–	(583)	–	(583)
Gain on disposal of property, plant and equipment and prepaid lease payments	2,569	–	–	2,569
Concession intangible assets written off	(82)	–	–	(82)
Impairment loss recognised on trade and other receivables	(2,590)	–	(28,000)	(30,590)
Reversal of impairment loss recognised on trade and other receivables	1,993	19,078	–	21,071
Waiver of loan interest and interest payables	59,748	–	–	59,748
Additions to non-current segment assets	175,172	64,848	3,816	243,836

Segment revenue reported above represents revenue generated from external customers. There were no inter-segments sales in the current year (2013: nil).

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

8. SEGMENT REPORTING *(Continued)*

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

For the years ended 31 December 2014 and 2013, the Group does not have any single significant customer with the transaction value of 10% or more of the turnover.

9. OTHER OPERATING INCOME

	2014 **HK$'000**	2013 HK$'000
Interest income on:		
– bank deposits	**1,566**	895
– loans *(notes)*	**17,667**	25,208
Government grants *(note 36)*	**214**	3,223
Consultancy fee income	**5,753**	–
Handling charges	**1,440**	1,207
Cleaning income	**601**	1,135
Repair services income	**721**	2,270
Gross rentals from investment property	**1,417**	1,317
Late surcharge income	**754**	397
(Loss) gain on disposal of property, plant and equipment and prepaid lease payments	**(82)**	2,569
Others	**939**	2,246
	30,990	40,467

Notes:

(a) On 19 March 2014, a subsidiary of the Company entered into a Sale and Purchase Agreement with two independent parties for the purpose of acquiring approximately 80% of the issued share capital of Yingtan City Run De Property Company Limited ("Run De Property") for an aggregate consideration of RMB30 million. Run De Property is principally engaged in the property development and sales of the "Xinduhui" Real Estate Project ("新都滙房地產項目") in Guixi, the PRC. However, the acquisition was abandoned and the Company disposed of the interest in Run De Property back to the original shareholders in December 2014 at a consideration of RMB38.1 million (HK$48.1 million), being refund of the cash consideration paid of RMB30 million (HK$37.9 million), plus an amount of RMB8.1 million (HK$10.2 million), being interest calculated at roughly 36% per annum.

(b) During 2014, the Company earned interest income of HK$7.5 million from an unrelated party (note 26), which was interest bearing with fixed interest rate roughly at 36% per annum.

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

10. FINANCE COSTS

	2014	2013
	HK$'000	*HK$'000*
Interest on:		
– convertible bonds *(note 34)*	**43,399**	3,481
– bank borrowings wholly repayable within five years	**6,875**	10,620
– bank borrowings not wholly repayable within five years	**88**	-
– other loans wholly repayable within five years	**2,274**	3,371
– other loans wholly repayable after five years	**–**	–
– loan from an associate	**387**	154
Total borrowing cost	**53,023**	17,626
Less: interest capitalised included in construction in progress	**(31,353)**	(2,274)
	21,670	15,352

Included in construction-in-progress under concession intangible assets, property, plant and equipment and properties under development for sale is accumulated interest capitalised of HK$31,353,000 (2013: HK$2,274,000) at the capitalization rate of 15.48% (2013: 2.33% to 20%) per annum.

11. INCOME TAX EXPENSE

	2014	2013
	HK$'000	*HK$'000*
Current tax		
– Hong Kong profits tax	**4,300**	–
– PRC Enterprise Income Tax ("EIT") on disposal of Super Sino *(note 39)*	**13,795**	–
– Other PRC EIT	**26,825**	41,345
Under (over) provision of EIT in respect of prior years	**1,908**	(557)
Deferred tax *(note 37)*	**14,947**	5,909
	61,775	46,697

11. INCOME TAX EXPENSE *(Continued)*

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit for 2014.

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Company did not have assessable profits subject to Hong Kong Profits Tax for 2013.

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

Gaoming Huaxin, Nanjing Feng Shang and Huiming Technology are engaged in sewage treatment, provision of electricity supply and sale of renewable energy, respectively. They are entitled to tax concessions whereby the profit for the first three financial years beginning with the first profit-making year is exempted from EIT and the profit for each of the subsequent three years is taxed at 50% of the prevailing tax rate. The first profit-making year of Gaoming Huaxin, Nanjing Feng Shang and Huiming Technology were 2011, 2012 and 2012, respectively. Accordingly:

– Gaoming Huaxin is exempted from PRC income tax from 1 January 2011 to 31 December 2013 and is entitled to a 50% exemption of income tax from 1 January 2014 to 31 December 2016.

– Nanjing Feng Shang and Huiming Technology are exempted from PRC income tax from 1 January 2012 to 31 December 2014 and are entitled to a 50% exemption of income tax from 1 January 2015 to 31 December 2017.

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

As such, included in the income tax expense for the year ended 31 December 2014 was an amount of HK$13,795,000 on the sale of Super Sino. The amount remained unpaid as of the date of approval of these financial statements. The Company has already submitted relevant documents to the PRC tax bureau regarding the sale of Super Sino.

11. INCOME TAX EXPENSE *(Continued)*

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

	2014	2013
	HK$'000	*HK$'000*
Profit before taxation	**291,410**	152,657
Tax at the domestic income tax rate of 25% (2013: 25%)	**72,853**	38,164
Tax effect of share of results of associate	**(15)**	567
Tax effect of expenses not deductible for tax purposes	**17,174**	8,035
Tax effect of income not taxable for tax purposes	**(8,396)**	(511)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(18,832)**	2,447
Effect of tax exemption granted to PRC subsidiaries	**(1,511)**	(3,713)
Tax effect of tax losses and deductible temporary differences not recognised	**4,567**	2,522
Utilisation of tax losses previously not recognised	**(1,645)**	(4,383)
Deferred tax liabilities arising on undistributed profit of PRC subsidiaries	**1,146**	4,126
Under (over) provision in respect of prior years	**1,908**	(557)
Tax on disposal of Super Sino	**(5,474)**	–
	61,775	46,697

12. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

	2014 HK$'000	2013 HK$'000
Staff costs excluding directors' and chief executive's emoluments		
– Salaries, wages and other benefits	**85,619**	72,532
– Retirement benefits scheme contributions	**23,380**	10,022
Total staff costs	**108,999**	82,554
Amortisation of:–		
– Prepaid lease payments	**1,297**	1,286
– Concession intangible assets (included in cost of sales)	**32,412**	29,451
– Other intangible assets	**3,899**	583
Concession intangible assets written off	**608**	82
Depreciation of property, plant and equipment	**13,279**	10,634
Loss (gain) on disposal of property, plant and equipment and prepaid lease payment	**82**	(2,569)
Auditors' remuneration – audit services	**900**	800
Minimum lease payments under operating leases	**7,257**	3,336
Cost of inventories sold	**88,044**	81,728

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

(a) The emoluments paid or payable to each of the 8 (2013: 8) directors and chief executive were as follows:

Name	Fees	Salaries, allowance and benefits in kind	Retirement benefits scheme contributions	2014 Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive Directors				
Wang De Yin	–	3,436	17	3,453
Liu Feng	–	1,443	17	1,460
Lin Yue Hui	–	1,592	17	1,609
Chu Yin Yin, Georgiana	–	1,625	17	1,642
Deng Xiao Ting	–	1,709	6	1,715
	–	9,805	74	9,879
Independent Non-Executive Directors				
Guo Chao Tian	142	–	–	142
Li Jian Jun	142	–	–	142
Wong Siu Keung, Joe	142	–	–	142
	426	–	–	426
	426	9,805	74	10,305

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

(a) *(Continued)*

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

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

There was no arrangement under which directors and chief executive waived or agreed to waive any emoluments during the two years ended 31 December 2014 and 2013.

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

(b) Individuals with highest emoluments

Of the five individuals with the highest emoluments, all (2013: all) were directors and chief executive whose emoluments are set out in (a) above.

14. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit attributable to owners of the Company includes a profit of HK$74,871,000 (2013: loss of HK$17,064,000) which has been dealt with in the financial statements of the Company.

15. DIVIDENDS

No dividend was paid or proposed during the year ended 31 December 2014, nor has any dividend been proposed since the end of the reporting period (2013: nil).

16. EARNINGS PER SHARE

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

	2014	2013
	HK$'000	*HK$'000*
Profit attributable to the owners of the Company, used in the basic earnings per share	**203,622**	61,419
Change in fair value of derivative component of convertible bonds	**(31,482)**	–
Imputed interest on convertible bonds, net of interest capitalised	**17,737**	–
Profit attributable to the owners of the Company, used in the diluted earnings per share	**189,877**	61,419
	'000	*'000*
Weighted average number of ordinary shares – basic	**1,233,800**	1,110,332
Effect of dilutive potential ordinary shares:		
– Convertible bonds	**111,669**	–
Weighted average number of ordinary shares – diluted	**1,345,469**	1,110,332
Earnings per share (HK cents):		
Basic	**16.50**	5.53
Diluted	**14.11**	5.53

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

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Leasehold improvements	Motor vehicles	Water pipeline	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST:							
At 1 January 2013	45,856	3,441	10,635	13,666	53,491	32,227	159,316
Additions	1,405	4,875	880	5,211	–	21,085	33,456
Additions – interest capitalised	–	–	–	–	–	688	688
Transfer	1,377	–	–	–	2,604	(3,981)	–
Disposals	(2,821)	(418)	(1,134)	(892)	–	–	(5,265)
Acquisitions through business combinations	1,639	19,437	120	2,156	–	–	23,352
Exchange realignment	1,147	401	156	437	1,724	1,176	5,041
At 31 December 2013 and 1 January 2014	48,603	27,736	10,657	20,578	57,819	51,195	216,588
Additions	2,420	2,549	2,705	9,659	–	62,981	80,314
Additions – interest capitalised	–	–	–	–	–	9,749	9,749
Transfer	–	–	–	–	2,426	(2,426)	–
Disposals	–	–	(55)	(1,764)	–	–	(1,819)
Acquisitions through business combinations	7,285	24,564	1,666	513	–	–	34,028
Disposal of subsidiaries	(25,754)	(2,338)	(1,564)	(1,362)	(60,245)	(65,851)	(157,114)
Exchange realignment	(196)	(77)	(31)	(158)	–	(29)	(491)
At 31 December 2014	**32,358**	**52,434**	**13,378**	**27,466**	**–**	**55,619**	**181,255**
ACCUMULATED DEPRECIATION AND IMPAIRMENT:							
At 1 January 2013	7,035	887	2,290	4,115	32,874	382	47,583
Provided for the year	1,873	2,766	949	2,852	2,194	–	10,634
Eliminated on disposal	(2,794)	(45)	(753)	(354)	–	–	(3,946)
Exchange realignment	208	54	64	165	381	12	884
At 31 December 2013 and 1 January 2014	6,322	3,662	2,550	6,778	35,449	394	55,155
Provided for the year	1,966	3,966	1,299	4,489	1,559	–	13,279
Eliminated on disposal	–	–	(48)	(1,089)	–	–	(1,137)
Disposal of subsidiaries	(6,274)	(672)	(643)	(225)	(37,008)	(394)	(45,216)
Exchange realignment	(36)	(29)	(17)	(54)	–	–	(136)
At 31 December 2014	**1,978**	**6,927**	**3,141**	**9,899**	**–**	**–**	**21,945**
CARRYING VALUES:							
At 31 December 2014	**30,380**	**45,507**	**10,237**	**17,567**	**–**	**55,619**	**159,310**
At 31 December 2013	42,281	24,074	8,107	13,800	22,370	50,801	161,433

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

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

As at 31 December 2014, the property usage permits of certain buildings have not been granted by relevant government authorities with the aggregate carrying values of approximately HK$3,473,000 (2013: HK$2,705,000). Based on the legal advice from the Company's lawyers, the absence of property usage permits to these buildings does not impair the value of the relevant buildings to the Group.

As at 31 December 2014, the Group has pledged buildings with carrying amount of approximately HK$746,000 (2013: HK$1,034,000) to secure the bank and other borrowings granted to the Group.

In light of the continuing loss-making of certain subsidiaries situated in the PRC, an impairment assessment has been performed by the directors of the Company to determine the recoverable amount of these property, plant and equipment. The directors of the Company engaged AVISTA Valuation Advisory Limited ("AVISTA"), a professionally qualified valuer not connected with the Group to perform a valuation of these property, plant and equipment in order to provide them with the impairment assessment. Having regard to the future plan of the Group and the valuation performed by AVISTA, no impairment loss was made to the carrying amounts of the property, plant and equipment for the years ended 31 December 2014 and 2013.

18. PREPAID LEASE PAYMENTS

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

	The Group	
	2014	2013
	HK$'000	*HK$'000*
CARRYING VALUES:		
At 1 January	**42,688**	42,881
Amortisation for the year	**(1,297)**	(1,286)
Eliminated on disposal	**–**	(308)
Disposal of a subsidiary	**(14,974)**	–
Exchange realignment	**(254)**	1,401
At 31 December	**26,163**	42,688
Current assets	**1,053**	1,307
Non-current assets	**25,110**	41,381
	26,163	42,688

18. PREPAID LEASE PAYMENTS *(Continued)*

At 31 December 2014, legal titles to land use rights with carrying values of approximately HK$nil (2013: HK$4,972,000) has not been granted by the relevant government authorities. Based on the legal advice from the Company's lawyers, the absence of land use rights certificate does not impair the value of the relevant land use rights to the Group.

In light of the continuing loss-making of certain subsidiaries situated in the PRC, an impairment assessment has been performed by the directors of the Company to determine the recoverable amount of these prepaid lease payments. The directors of the Company engaged AVISTA to perform a valuation of these prepaid lease payments in order to provide them with the impairment assessment. Having regard to the future plan of the Group and the valuation performed by AVISTA, no impairment loss was made to the carrying amounts of the prepaid lease payments for the years ended 31 December 2014 and 2013.

As of December 31, 2013, a deposit of HK$40,701,000 was paid and payable for the land use rights over a parcel of land in Yingtan, Jiangxi Province, the PRC. The outstanding amount of HK$52,244,000 was paid in 2014 (note 25).

19. CONCESSION INTANGIBLE ASSETS

	The Group	
	2014	2013
	HK$'000	*HK$'000*
COST		
At 1 January	**790,754**	664,617
Additions	**68,164**	103,956
Written off	**(1,047)**	(105)
Disposal of a subsidiary	**(183,447)**	–
Exchange realignment	**(6,419)**	22,286
At 31 December	**668,005**	790,754
ACCUMULATED AMORTISATION AND IMPAIRMENT		
At 1 January	**168,124**	134,026
Provided for the year	**32,412**	29,451
Eliminated on written off	**(439)**	(23)
Disposal of a subsidiary	**(77,478)**	–
Exchange realignment	**(1,380)**	4,670
	121,239	168,124
CARRYING VALUES		
At 31 December	**546,766**	622,630

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

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

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

19. CONCESSION INTANGIBLE ASSETS *(Continued)*

For the year ended 31 December 2014, the Group has recognised service concession construction revenue of HK$60.8 million (2013: HK$102.4 million) and profit of HK$4.7 million (2013: HK$10.2 million) during the construction of the service concession periods.

The recoverable amounts of the concession intangible assets have been determined by using value-in-use calculation with reference to the valuation performed by AVISTA. Having regard to the future plan of the Group and the valuation performed by AVISTA, no impairment loss was made to the carrying amounts of the concession intangible assets for the years ended 31 December 2014 and 2013.

20. INVESTMENT PROPERTY

	The Group	
	2014	2013
	HK$'000	*HK$'000*
AT FAIR VALUE:		
At 1 January	**21,037**	17,390
Fair value gain recognised for the year	**605**	3,054
Exchange realignment	**(185)**	593
At 31 December	**21,457**	21,037

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

Fair value measurement of properties

(i) *Fair value hierarchy*

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

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

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

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

20. INVESTMENT PROPERTY *(Continued)*

Fair value measurement of properties *(Continued)*

The Group	Fair value at 31 December HK$'000	Fair value measurements 31 December categorised into Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000
Recurring fair value measurement				
Investment properties:				
– Commercial – PRC, held on medium-term leases				
2014	**21,457**	**–**	**–**	**21,457**
2013	21,037	–	–	21,037

During the year ended 31 December 2014, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

All of the Group's investment properties were revalued as at 31 December 2014. The valuations were carried out by AVISTA who have recent experience in the location and category of property being valued. The Company's directors have discussion with the valuer on the valuation assumptions and valuation results when the valuation is performed at each reporting date.

(ii) Information about Level 3 fair value measurements

	Valuation techniques	Unobservable input	Range 2014	Range 2013	Weighted average 2014	Weighted average 2013
Investment properties						
Commercial – PRC	Income approach (term and reversionary method)	Vacancy rate	**0%**	0%	**0%**	0%
		Term and reversionary yield	**6.50% to 9.00%**	6.50% to 9.00%	**8.67%**	8.68%

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

20. INVESTMENT PROPERTY *(Continued)*

Fair value measurement of properties *(Continued)*

(ii) Information about Level 3 fair value measurements (Continued)

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

	2014 ***HK$'000***	2013 *HK$'000*
Investment properties – Commercial – PRC		
At 1 January	**21,037**	17,390
Net gain from a fair value adjustment recognised in change in fair value of investment property in profit or loss	**605**	3,054
Exchange realignment	**(185)**	593
At 31 December	**21,457**	21,037

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

21. OTHER INTANGIBLE ASSETS

		The Group	
	Goodwill	Exclusive rights of collection and utilization of landfill gas	Total
	HK$'000	*HK$'000*	*HK$'000*
COST:			
At 1 January 2013	262,225	–	262,225
Acquisition of a subsidiary *(note 38)*	8,643	41,411	50,054
At 31 December 2013 and 1 January 2014	270,868	41,411	312,279
Acquisition of exclusive rights *(note 23)*	**–**	**29,010**	**29,010**
Acquisition of subsidiaries *(note 38)*	**13,733**	**83,957**	**97,690**
Disposal of subsidiaries	**(11,284)**	**–**	**(11,284)**
Exchange realignment	**77**	**433**	**510**
At 31 December 2014	**273,394**	**154,811**	**428,205**
ACCUMULATED AMORTISATION AND IMPAIRMENT:			
At 1 January 2013	251,933	–	251,933
Amortisation	–	583	583
At 31 December 2013 and 1 January 2014	**251,933**	**583**	**252,516**
Amortisation	**–**	**3,899**	**3,899**
Impairment	**6,964**	**–**	**6,964**
Disposal of subsidiaries	**(11,284)**	**–**	**(11,284)**
Exchange realignment	**–**	**(1)**	**(1)**
At 31 December 2014	**247,613**	**4,481**	**252,094**
CARRYING VALUES:			
At 31 December 2014	**25,781**	**150,330**	**176,111**
At 31 December 2013	18,935	40,828	59,763

The exclusive rights were initially recognized at fair value at the acquisition date. Amortisation expense for the year ended 31 December, 2014 was HK$3,899,000 (2013: HK$583,000), of which HK$3,500,000 (2013: HK$nil) and HK$399,000 (2013: HK$583,000) were recorded into cost of sales and administrative expenses, respectively.

21. OTHER INTANGIBLE ASSETS *(Continued)*

Impairment test on goodwill

For the purposes of impairment testing, goodwill have been allocated to seven (2013: seven) individual cash generating unit ("CGUs"). The carrying amounts of goodwill (net of accumulated impairment losses) as at 31 December 2014 and 2013 allocated to these units are as follows:

	2014	2013
	HK$'000	*HK$'000*
Water supply and sewage treatment		
Blue Mountain Hong Kong Group Limited	**–**	–
Onfar International Limited	**–**	–
Jining City Haiyuan Water Treatment Company Limited	**–**	–
Foshan City Gaoming Huaxin Sewage Treatment Company Limited ("Gaoming Huaxin")	**3,328**	10,292
Danzhou Lian Shun Tong Water Pipe Company Limited *(note 39)*	**–**	–
Anhui Dang Shan Water Industry Company Limited *(note 39)*	**–**	–
Collection and utilization of landfill gas		
Shenzhen City Li Sai Industrial Development Limited	**13,043**	–
Nanjing Feng Shang New Technology Limited Liability Company	**8,673**	8,643
Hunan Huming Environmental Technology Limited	**737**	–
	25,781	18,935

The Group tests goodwill annually for impairment, or more frequently when there is indication that the unit may be impaired. In assessing the need for impairment of goodwill, the Group estimates the recoverable amount of individual CGU to which goodwill has been allocated by reference to, amongst other things, the existing operations, and future prospects of the CGUs. Accordingly, the Group recognised impairment losses with an aggregate amount of HK$247,613,000 as at 31 December 2014 (2013: HK$251,933,000) in relation to goodwill arising on acquisition of Gaoming Huaxin, Blue Mountain, Onfar, Jining Haiyuan (2013: impairment losses with an aggregate amount of HK$251,933,000 in relation to goodwill arising on acquisition of Gaoming Huaxin, Blue Mountain, Onfar, Jining Haiyuan, Anhui Dang Shan and Danzhou Lian Shun Tong).

21. OTHER INTANGIBLE ASSETS *(Continued)*

Impairment test on goodwill *(Continued)*

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

Water supply and sewage treatment

The recoverable amount of the CGUs under the water supply and sewage treatment operation is determined based on value-in-use calculations with reference to a valuation performed by AVISTA. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 2% (2013: 2%) which is consistent with the forecasts included in industry reports. The growth rates used do not exceed the long-term average growth rates for the business in which the CGU operates. The cash flows are discounted using a discount rate of 13.7%-15.4% (2013: 13.8%-16.1%). The discount rates used are pre-tax and reflect specific risks relating to the relevant industry.

In light of the operating loss of Gaoming Huaxin incurred in 2014, an impairment loss of HK$6,964,000 was made on goodwill during the year ended 31 December 2014. The recoverable amount of this CGU at 31 December 2014 was HK$53,831,000 (RMB42,699,000).

Collection and utilization of landfill gas

The recoverable amount of the CGUs under the collection and utilization of landfill gas is determined based on value-in-use calculations with reference to a valuation performed by AVISTA. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 2-3% (2013: 3%) which is consistent with the forecasts included in industry reports. The growth rates used do not exceed the long-term average growth rates for the business in which the CGU operates. The cash flows are discounted using a discount rate of 15.9%- 19.4% (2013: 17.4%). The discount rates used are pre-tax and reflect specific risks relating to the relevant industry.

22. AVAILABLE-FOR-SALE INVESTMENTS AND FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(a) Available-for-sale investments

	The Group		The Company	
	2014	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Available-for-sale investments comprise:				
– Equity securities listed in Hong Kong	**26,016**	95,781	**26,016**	95,781

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

As at 31 December 2014, the Group's listed available-for-sale investments were individually determined to be impaired on the basis of a material decline in their fair value below cost and adverse changes in the market in which these investees operated which indicated that the cost of the Group's investment in them may not be recovered. Impairment losses on these investments of HK$16,353,000 (2013: nil) were recognised in profit or loss in accordance with the policy set out in note3 (p)(i).

Included in the available-for-sale investments at December 31, 2013 of HK$29,898,000 was an investment in equity securities listed in Hong Kong. The trading in these listed equity investments on the Stock Exchange was suspended during 2013. After resumption of trading of this listed equity investments in February 2014, the Company disposed of all its investments in this security at a consideration of HK$46,552,000.

(b) Financial assets at fair value through profit or loss

	The Group		The Company	
	2014	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Financial assets at fair value through profit or loss comprise:				
– Unlisted US dollar based investment fund	**179,267**	–	**179,267**	–
– Equity securities listed in Hong Kong	**59,260**	-	**59,260**	-
	238,527	–	**238,527**	–

22. AVAILABLE-FOR-SALE INVESTMENTS AND FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS *(Continued)*

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

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

As at 31 December 2014, the Company invested HK$105 million in an unlisted US dollar based investment fund (the "Fund"). The Fund primarily invests in listed securities in Asian market, and is stated with reference to the net asset value provided by the fund manager on the last day of each calendar month. If the net asset value of the investment funds is not available or the Group considers that such net asset value is not reflective of fair value, the Group may exercise its judgement and discretion to determine the fair value of the investment funds.

The movement of the unlisted US dollar based investment fund is set out below:

	The Group and the Company	
	2014	2013
	HK$'000	*HK$'000*
Subscription of funds	**105,000**	–
Fair value gain (included in net gain on financial assets at fair value through profit or loss)	**74,267**	–
	179,267	–
Total gains for the year included in profit or loss for assets held at the end of the reporting period	**74,267**	–

23. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2014	2013
	HK$'000	*HK$'000*
Unlisted shares at cost	**2**	2

23. INVESTMENTS IN SUBSIDIARIES *(Continued)*

The following list contains the particulars of the principal subsidiaries of the Group as at 31 December 2014. The class of shares held is ordinary, unless otherwise stated.

Name of company	Place of establishment/ incorporation and business	Particulars of issued and paid up share capital/ registered capital	Attributable equity interest held by the Company		Principal activities	Legal form
			Directly	Indirectly		
Billion City Investments Limited	British Virgin Islands ("BVI")/Hong Kong	US$1	100%	–	Investment holding	Private limited liability company
Onfar International Limited ("Onfar")	BVI/Hong Kong	US$100	–	100%	Investment holding	Private limited liability company
Yichun Water Industry Co., Limited* ("Yichun Water")	PRC	RMB45,500,000	–	51%	Provision of water supply and installation of water supply facilities	Chinese foreign equity joint venture
Yichun Fangke Sewage Treatment Company Limited* ("Yichun Fangke") *(note i)*	PRC	RMB95,000,000	–	54.33%	Sewage treatment	Domestic enterprise
Yichun City Water Supply Engineering Limited*	PRC	RMB5,000,000	–	100%	Installation of water supply facilities	Domestic enterprise
Yichun Kun Lun Information Technology Company Limited* ("Yichun Kun Lun")	PRC	RMB2,000,000	–	100%	Information services	Domestic enterprise
Nourish Gain Investments Limited	BVI/Hong Kong	US$1	100%	–	Investment holding	Private limited liability company
China Ace Investment Limited	Hong Kong	HK$1	–	100%	Investment holding	Private limited liability company
Jining City Haiyuan Water Treatment Company Limited* ("Jining Haiyuan")	PRC	RMB40,000,000	–	70%	Sewage treatment	Chinese foreign equity joint venture
Swan (Huizhou) Investment Company Limited	PRC	US$12,572,000	–	100%	Investment holding	Wholly-owned foreign enterprise
China Water Industry (HK) Ltd	Hong Kong	HK$1	–	100%	Investment holding	Private limited liability company
Linyi Fenghuang Water Industry Co., Ltd* ("Linyi Fenghuang")	PRC	RMB30,000,000	–	60%	Provision of water supply	Chinese foreign equity joint venture

23. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place of establishment/ incorporation and business	Particulars of issued and paid up share capital/ registered capital	Attributable equity interest held by the Company Directly	Indirectly	Principal activities	Legal form
Shenzhen Haisheng Environmental Sci-Tech Company Limited*	PRC	HK$20,000,000	–	100%	Installation of water suppliers facilities	Wholly-owned foreign enterprise
Shenzhen Shi Guang Company Limited* ("Shenzhen Shi Guang")	PRC	RMB1,000,000	–	100%	Trading company	Domestic enterprise
Shi Guang Limited	Hong Kong	HK$10,000	–	100%	Trading company	Private limited liability company
Yingtan Water Supply Co., Ltd* ("Yingtan Water Supply")	PRC	RMB66,008,000	–	51%	Provision of water supply	Chinese foreign equity joint venture
Jiangxi Shunda Construction Engineering Limited*	PRC	RMB20,500,000	–	100%	Installation of water supply facilities	Domestic enterprise
Yingtan Xinjiang Water Treatment Engineering Limited*	PRC	RMB500,000	–	100%	Installation of water supply facilities	Domestic enterprise
Jiangxi Hualei Construction Co., Limited ("Hualei") *(note iii)*	PRC	RMB20,000,000	–	100%	Installation of water supply facilities	Domestic enterprise
Yingtan Xiang Rui Property Limited* ("Yingtan Xiang Rui") *(note ii)*	PRC	RMB20,000,000	–	51%	Property development	Domestic enterprise
Nanjing Feng Shang New Technology Limited Liability Company* ("Nanjing Feng Shang")	PRC	RMB10,000,000	–	100%	Exploitation, generation and sale of renewable energy	Wholly-owned foreign enterprise
Greenspring (Nanjing) Recycling Resources Investment Co., Ltd.* ("Greenspring (Nanjing)")	PRC	US$20,226,000	–	100%	Exploitation, generation and sale of renewable energy	Wholly-owned foreign enterprise
Changsha Huiming Recycling Resources Technology Limited* ("Changsha Huiming") *(note iv)*	PRC	RMB30,000,000	–	91%	Exploitation, generation and sale of renewable energy	Domestic enterprise

23. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place of establishment/ incorporation and business	Particulars of issued and paid up share capital/ registered capital	Attributable equity interest held by the Company Directly	Indirectly	Principal activities	Legal form
Shenzhen City Li Sai Industrial Development Limited ("Shenzhen Li Sai") *(note 38)*	PRC	RMB30,000,000	–	88%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Shenzhen City Greenspring Recycling Resources Technology Limited ("Shenzhen City Greenspring") *(note vi)*	PRC	RMB10,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Qingyuan City Greenspring Environmental Technology Limited ("Qingyuan City Greenspring") *(note v)*	PRC	RMB3,005,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Hunan Huiming Environmental Technology Limited ("Huiming Technology") *(note 38))*	PRC	RMB18,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Happy Hour Limited	BVI/Hong Kong	US$1	100%	–	Investment holding	Private limited liability company
Mascot Industries Limited	Hong Kong	HK$2	–	100%	Investment holding	Private limited liability company
Smart Giant Group Limited	BVI/Hong Kong	US$1	100%	–	Investment holding	Private limited liability company
Blue Mountain Hong Kong Group Limited ("Blue Mountain")	Hong Kong	HK$1	–	100%	Investment holding	Private limited liability company
Swift Surplus Holdings Limited	BVI/Hong Kong	US$100	100%	–	Investment holding	Private limited liability company
Mark Profit Group Holdings Limited	Hong Kong	HK$1	–	100%	Investment holding	Private limited liability company
Guangzhou Hyde Environmental Protection Technology Co., Ltd*	PRC	HK$12,000,000	–	100%	Investment holding	Wholly-owned foreign enterprise
Foshan City Gaoming Huaxin Sewage Treatment Company Limited* ("Gaoming Huaxin")	PRC	RMB10,000,000	–	70%	Sewage treatment	Domestic enterprise
Bonus Raider Investments Limited	BVI/Hong Kong	US$1	100%	–	Investment holding	Private limited liability company

23. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place of establishment/ incorporation and business	Particulars of issued and paid up share capital/ registered capital	Attributable equity interest held by the Company		Principal activities	Legal form
			Directly	Indirectly		
Bloom Profit Investment Limited	Hong Kong	HK$100	–	100%	Investment holding	Private limited liability company
South Top Investment Ltd.	Hong Kong	HK$1	100%	–	Provision of administrative services	Private limited liability company
Neutral Crown Holdings Limited	BVI	US$100	100%	–	Investment holding	Private limited liability company
Victory Strategy Investment Limited	Hong Kong	HK$100	–	100%	Investment holding	Private limited liability company

* The English names are for identification purpose only.

Notes:

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

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

(iii) Hualei was acquired on 21 April 2014.

(iv) Changsha Huiming was incorporated in the PRC on 15 April 2014. Changsha Huiming obtained from a non-controlling shareholder of a subsidiary the exclusive rights relating to the operation and utilization of Changsha Heimifeng Landfill Site* for a period of 35 years until 10 October 2039 at a cash consideration of RMB23,000,000 (HK$29,010,000)(note 21).

(v) Qingyuan City Greenspring was incorporated in the PRC on 24 September 2014. Greenspring (Nanjing) was granted by a government authority, Solid Waste Management Centre of Qingyuan City* 清遠市固體廢棄物管理中心, relating to the operation rights of Qingshan Municipal Solid Waste Landfill Site 清遠市青山城市生活垃圾衛生填理場 for a term of 10 years until 25 July 2024, and Qingyuan City Greenspring was set up to carry out construction and production in this site.

(vi) Shenzhen City Greenspring was incorporated in the PRC on 17 September 2014. Greenspring (Nanjing) was granted by a government authority, Pingshan New District City Administration Bureau* 深圳市坪山新區管理局 relating to the operation and utilization of Yahu Household Garbage Landfill Site in Pingshan New District* 坪山新區鴨湖生活垃圾衛生填埋場 for a period of 10 years until 15 September 2024, and Shenzhen City Greenspring was set up to carry out construction and production in this site.

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

23. INVESTMENTS IN SUBSIDIARIES *(Continued)*

None of the subsidiaries has issued any debt securities subsisting at the end of 2014 and 2013 or at any time during the years ended 31 December 2014 and 2013.

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

	Yingtan Water Supply		Yichun Water		Yichun Fangke		Yichun City Water Supply Engineering Limited	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
NCI percentage	**49%**	49%	**49%**	49%	**72.29%**	72.29%	**49%**	49%
Current assets	**80,557**	85,860	**88,333**	91,250	**37,074**	12,768	**72,969**	29,750
Non-current assets	**288,668**	239,185	**225,890**	205,631	**95,438**	77,954	**–**	–
Current liabilities	**(115,955)**	(83,157)	**(73,869)**	(40,044)	**(4,763)**	(4,356)	**(32,182)**	(10,332)
Non-current liabilities	**(52,039)**	(54,406)	**(78,197)**	(81,556)	**(7,564)**	(11,447)	**–**	–
Net assets	**201,231**	187,482	**162,157**	175,281	**120,158**	74,919	**40,787**	19,418
Carrying amount of NCI	**98,603**	91,866	**79,457**	85,888	**86,864**	54,160	**19,986**	9,515
Revenue	**131,814**	162,298	**84,839**	158,963	**46,184**	20,710	**70,951**	41,804
Profit (loss) for the year	**31,351**	19,175	**(11,924)**	23,484	**1,774**	882	**21,550**	12,821
Total comprehensive income	**28,764**	24,708	**(13,124)**	27,331	**1,114**	3,143	**21,369**	13,222
Profit allocated to NCI	**15,362**	9,396	**(5,842)**	11,507	**1,283**	638	**10,560**	6,282
Dividend paid by the subsidiaries	**(15,014)**	–	**–**	–	**–**	–	**–**	–
Increase in registered capital	**–**	–	**–**	–	**44,125**	–	**–**	–
Dividend paid to NCI	**(7,357)**	–	**–**	–	**–**	–	**–**	–
Cash flows from (used in) operating activities	**11,035**	35,687	**(5,934)**	14,983	**6,106**	1,713	**2,740**	10,677
Cash flows used in investing activities	**(37,679)**	(7,992)	**(14,799)**	(7,378)	**(23,861)**	(1,915)	**–**	–
Cash flows from (used in) financing activities	**(15,308)**	28,930	**433**	(1,070)	**42,123**	(4,985)	**(238)**	16

24. INTERESTS IN ASSOCIATES

	The Group	
	2014	2013
	HK$'000	*HK$'000*
Share of net assets	**73,103**	66,220
Impairment	**(33,540)**	(33,540)
	39,563	32,680

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

Name of company	Place of establishment/ incorporation and business	Class of shares held	Attributable equity interest held by the Company Directly	Attributable equity interest held by the Company Indirectly	Principal activities	Legal form
Yu Jiang Hui Min Small-Sum Loan Company Limited* ("Yu Jiang Hui Min") 余江惠民小額貸款股份有限公司	PRC	Contributed capital	–	10%	Money lending business *(note i)*	Domestic enterprise
Jinan Hongquan Water Production Co., Limited* ("Jinan Hongquan") 濟南泓泉制水有限公司	PRC	Contributed capital	–	35%	Provision of water supply *(note ii)*	Domestic enterprise
Super Sino Investment Limited ("Super Sino")	Hong Kong	Paid-up capital	–	30%	Investment holding *(note iii)*	Private limited liability company

* The English names are for identification purpose only.

Note:–

(i) On 21 December 2011, the Group acquired 10% equity interest in Yu Jiang Hui Min at a consideration of approximately HK$12,206,000. During the years ended 31 December 2014 and 2013, the Group has the right to nominate two out of five of the directors of Yu Jiang Hui Min. The directors of the Company consider that the Group does exercise significant influence over Yu Jiang Hui Min and it is therefore classified as an associate of the Group. Yu Jiang Hui Man enables the Group to have exposure in the money lending business through local expertise.

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

(iii) On 15 September 2014, a sale and purchase agreement was entered into between the Company, Billion City Investments Limited, a subsidiary of the Company and Guangdong Water Group (H.K.) Limited (the "Purchaser"), pursuant to which the Company agreed to sell and the Purchaser agreed to purchase 70% of the entire issued share capital of Super Sino at an aggregate initial consideration of RMB175 million. The equity interest in Super Sino owned by the Group has reduced from 100% to 30%.

As of 31 December 2014, the Group has pledged 3 ordinary shares (or 30%) in the issued share capital of Super Sino in favour of the Purchaser (the "Share Pledge") (note 39).

24. INTERESTS IN ASSOCIATES *(Continued)*

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

	Super Sino and subsidiaries		Yu Jiang Hui Min		Jinan Hongquan	
	2014	2013	**2014**	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Gross amounts of the associates'						
Current assets	**15,992**	–	**197,377**	188,958	**216,326**	188,434
Non-current assets	**216,787**	–	**340**	762	**379,608**	404,623
Current liabilities	**(200,201)**	–	**(110)**	(48,485)	**(302,816)**	(126,756)
Non-current liabilities	**(25,670)**	–	**–**	–	**(146,631)**	(317,455)
Equity	**6,908**	–	**197,607**	141,235	**146,487**	148,846
Revenue	**–**	–	**19,772**	23,411	**334,146**	317,460
Profit (loss) for the year	**–**	–	**4,296**	11,895	**(1,052)**	(9,877)
Other comprehensive income	**–**	–	**(991)**	4,111	**(1,310)**	4,871
Total comprehensive income	**–**	–	**3,305**	16,006	**(2,362)**	(5,006)
Dividend paid by the associate	**–**	–	**(22,331)**	–	**–**	–
Capital injection to the associate	**–**	–	**75,398**	–	**–**	–
Dividend received from the associate	**–**	–	**2,233**	–	**–**	–
Reconciled to the Group's interests in the associates:						
Net assets of the associates	**6,908**	–	**197,607**	141,235	**146,487**	148,846
Proportion of the Group's ownership interests in the associates	**30%**	–	**10%**	10%	**35%**	35%
Impairment	**–**	–	**–**	–	**(33,540)**	(33,540)
Carrying amount of the Group's interests in the associates	**2,072**	–	**19,761**	14,124	**17,730**	18,556

25. INVENTORIES

	The Group	
	2014	2013
	HK$'000	*HK$'000*
Properties under development for sale	**146,068**	–
Raw materials	**37,564**	1,527
Finished goods	**404**	23,054
	184,036	24,581

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

	2014	2013
	HK$'000	*HK$'000*
Carrying amount of inventories sold	**88,044**	81,728

The analysis of carrying value of inventories for properties under development is as follows:

	2014	2013
	HK$'000	*HK$'000*
In mainland China		
– land use rights under medium-term leases *(note 18)*	**92,945**	–
– Other development costs	**40,853**	–
– Interest capitalised	**12,270**	–
	146,068	–
Including:		
Properties expected to be completed within one year	**146,068**	–

Properties under development represented the construction of new commercial buildings for sale by Yingtan Xiang Rui Property Limited* (鷹潭祥瑞置業有限公司) at Yingtan, Jiangxi Province, the PRC. The construction has commenced in February 2014 and is expected to complete on or before 30 December 2015.

Properties under development with a carrying amount of approximately HK$146.07 million have been pledged to secure a personal bank loan of HK$37.8 million (RMB30 million) granted to Mr. Zhou Ping Hua, the 49% non-controlling shareholder of Yingtan Xiang Rui Property Limited.

26. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2014	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade receivables	**35,912**	40,790	**–**	–
Less: Allowance for doubtful debts	**(5,659)**	(7,604)	**–**	–
	30,253	33,186	**–**	–
Consideration receivable *(note 39)*	**88,304**	–	**–**	–
Other receivables *(a)*	**15,700**	38,273	**4**	2,005
Less: Allowance for doubtful debts	**(4,265)**	(9,090)	**–**	(1,712)
	11,435	29,183	**4**	293
Loans receivables	**69,847**	81,844	**54,844**	81,844
Less: Allowance for doubtful debts	**(54,844)**	(54,844)	**(54,844)**	(54,844)
	15,003	27,000	**–**	27,000
Deposits and prepayments *(b)*	**26,687**	18,995	**–**	–
	171,682	108,364	**4**	27,293

(a) Other receivables represented advances to staff and unrelated parties, which were unsecured, interest-free and repayable on demand. Included in other receivables at 31 December 2013 was an amount due from a non-controlling shareholder of a subsidiary of approximately HK$17,816,000 which was unsecured, interest-free and repaid in 2014.

(b) Deposits and prepayments were mainly tender deposits paid to independent third parties for bidding construction projects.

The Group allows an average credit period of 30 days to 180 days to its customers. Further details on the Group's credit policy are set out in note 6.

26. TRADE AND OTHER RECEIVABLES *(Continued)*

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

	The Group	
	2014	2013
	HK$'000	*HK$'000*
Within 90 days	**20,985**	22,512
91 to 180 days	**2,262**	6,483
181 to 365 days	**5,671**	3,890
Over 1 year	**1,335**	301
	30,253	33,186

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

	The Group	
	2014	2013
	HK$'000	*HK$'000*
Neither past due nor impaired	**23,247**	28,995
Past due but not impaired		
Within 90 days	**4,450**	3,133
91 to 180 days	**1,221**	757
181 to 365 days	**745**	–
Over 1 year	**590**	301
	30,253	33,186

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

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

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly (note 3(p)).

26. TRADE AND OTHER RECEIVABLES *(Continued)*

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

	The Group	
	2014	2013
	HK$'000	*HK$'000*
At 1 January	**7,604**	6,733
Impairment loss recognised	**3,059**	2,303
Reversal of impairment loss	**(337)**	(1,654)
Uncollectible amounts written off	**(2,074)**	–
Disposal of subsidiaries	**(2,527)**	–
Exchange realignment	**(66)**	222
At 31 December	**5,659**	7,604

Included in the impairment loss are individually impaired trade receivables with an aggregate balance of HK$5,659,000 (2013: HK$7,604,000) which are long outstanding.

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

	The Group		The Company	
	2014	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
At 1 January	**9,090**	9,453	**1,712**	1,712
Impairment loss recognised	**–**	287	**–**	–
Reversal of impairment loss	**–**	(339)	**–**	–
Uncollectible amounts written off	**(2,308)**	(376)	**(1,712)**	–
Disposal of subsidiaries	**(2,508)**	–	**–**	–
Exchange realignment	**(9)**	65	**–**	–
At 31 December	**4,265**	9,090	**–**	1,712

Included in the impairment loss are individually impaired other receivables with an aggregate balance of HK$4,265,000 (2013: HK$9,090,000) which are long outstanding. Other receivables of HK$11,435,000 (2013: HK$29,183,000) that were neither past due nor impaired relate to various debtors for whom there was no recent history of default. The Group does not hold any collateral over these balances.

26. TRADE AND OTHER RECEIVABLES *(Continued)*

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

	The Group		The Company	
	2014	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
At 1 January	**54,844**	67,549	**54,844**	67,549
Impairment loss recognised	**–**	28,000	**–**	28,000
Reversal of impairment loss	**–**	(19,078)	**–**	(19,078)
Uncollectible amounts written off	**–**	(21,627)	**–**	(21,627)
At 31 December	**54,844**	54,844	**54,844**	54,844

Included in the impairment loss are individually impaired loans receivables with an aggregate balance of HK$54,844,000 (2013: HK$54,844,000) which are long outstanding. The Group does not hold any collateral over these balances.

Loans to Top Vision

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

26. TRADE AND OTHER RECEIVABLES *(Continued)*

Loans to Top Vision *(Continued)*

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

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

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

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

As at December 31, 2013, a further impairment loss of approximately HK$28 million regarding the loan receivables from Top Vision has been provided. The Board determined to fully impair the remaining carrying amount of HK$28 million as it seems remote that the outstanding balance could be recovered from the actions taken against Top Vision. At 31 December 2014 and 2013, the loan receivables from Top Vision of HK$43,598,000 were fully impaired.

26. TRADE AND OTHER RECEIVABLES *(Continued)*

Other loans receivables

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

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

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

Outstanding balances from Borrower A, Borrower B, Borrower C, and Borrower E as at 13 December 2013, after write off and including accrued interests, totalled HK$38,246,000, of which HK$11,246,000 were impaired at 31 December 2014 and 2013.

Included in loans receivables as at 31 December 2014 was a loan to an unrelated party of HK$15,003,000 (2013: HK$nil), which was interest bearing fixed interest rate roughly at 36% per annum. This party has no recent history of default.

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

Cash held by financial institutions by the Group and the Company represents amounts deposited in financial institutions in Hong Kong carry interest rate ranging from 0% to 0.001% (2013: 0% to 0.001%) per annum.

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

28. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2014	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade payables	**17,540**	22,302	**–**	–
Other tax payables	**4,313**	3,796	**–**	–
Receipt in advance *(note 29)*	**68,275**	60,434	**–**	–
Construction payables	**7,502**	8,882	**–**	–
Interest payables *(note 31)*	**10,549**	16,013	**–**	–
Consideration payable *(note 38)*	**13,237**	5,107	**–**	–
Accrued expenses	**17,578**	18,825	**5,891**	3,252
Forward sales deposits received	**2,379**	–	**–**	–
Other payables	**16,574**	22,100	**–**	–
	157,947	157,459	**5,891**	3,252

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

	The Group	
	2014	2013
	HK$'000	*HK$'000*
Within 30 days	**10,397**	11,922
31 to 90 days	**574**	2,436
91 to 180 days	**1,001**	758
181 to 365 days	**2,198**	2,213
Over 1 year	**3,370**	4,973
	17,540	22,302

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

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

	The Group	
	2014	2013
	HK$'000	*HK$'000*
Contracts in progress at the end of reporting period:		
Contract costs incurred plus recognised profits	**75,354**	40,625
Less: progress billings	**(120,877)**	(43,528)
	(45,523)	(2,903)
Analysed for reporting purposes		
Amounts due from contract customers	**12,898**	8,790
Amounts due to contract customers	**(58,421)**	(11,693)
	(45,523)	(2,903)

As at 31 December 2014 and 2013, there were no retentions held by customers for contract work. Advance received from customers for contract work amounted to HK$68,275,000 (2013: HK$60,434,000) included in other payables (note 28).

30. BANK BORROWINGS

	The Group	
	2014	2013
	HK$'000	*HK$'000*
Loans		
Carrying amount repayable:		
On demand overdue balances *(notes ii)*	**12,859**	8,535
Within one year	**36,399**	33,581
More than one year but not more than two years	**19,163**	8,903
More than two years but not more than five years	**14,435**	17,807
	82,856	68,826
Less: Amount due within one year shown under current liabilities	**(49,258)**	(42,116)
Amount due from one year shown under non-current liabilities	**33,598**	26,710

30. BANK BORROWINGS *(Continued)*

	2014 **HK$'000**	2013 HK$'000
Secured	**50,518**	57,379
Unsecured	**32,338**	11,447
	82,856	68,826

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

	The Group	
	2014 **HK$'000**	2013 HK$'000
Fixed-rate loans	**33,094**	44,148
Variable-rate loans	**49,762**	24,678
	82,856	68,826

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

At 31 December 2014, the Group has the following undrawn bank borrowing facilities:

	2014 **HK$'000**	2013 HK$'000
Variable-rate		
– expiring beyond one year	**11,784**	15,705
	11,784	15,705

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

Certain of the Group's property, plant and equipment with a carrying value of approximately HK$746,000 (2013: HK$1,034,000) were pledged to secure the respective bank borrowings as at 31 December 2014.

30. BANK BORROWINGS *(Continued)*

Notes:

(i) As at 31 December 2014, bank borrowings of approximately RMB9,000,000 (equivalent to HK$11,346,000)(2013: RMB12,000,000 (equivalent to HK$15,263,000)) carries variable interest rate ranging from 6.8% to 7.2% (2013: 7.2%) per annum and is secured by a contractual right to receive the revenue generated by Yichun Fangke, a non-wholly owned subsidiary of the Company.

(ii) As at 31 December 2014, bank borrowings of approximately RMB22,200,000 (equivalent to HK$27,988,000) (2013: RMB22,710,000 (equivalent to HK$28,885,000)) is secured by a contractual right to receive the revenue generated by Gaoming Huaxin, a non-wholly owned subsidiary of the Company, and carries fixed interest rate of 5.94% (2013: 5.94%) per annum. As at 31 December 2014, there was a past due amount on these borrowings of approximately HK$12,859,000, which was due for repayment on or before 31 December 2014 (2013: HK$8,535,000 which was due for repayment on or before 31 December 2013).

(iii) As at 31 December 2014, bank borrowings of approximately RMB1,872,000 (equivalents to HK$2,360,000)(2013: RMB3,403,000 (equivalents to HK$4,328,000)) is secured by a contractual right to receive the revenue generated by Yingtan Water Supply, a non-wholly owned subsidiary of the Company, and carries variable interest rate ranging from 6.6% to 7.0% (2013: 7.0%) per annum. The Group also has a bank borrowings of approximately RMB7,000,000 (equivalents to HK$8,825,000) (2013: RMB7,000,000 (equivalents to HK$8,903,000)) which is secured by property, plant and equipment, and carries variable interest rate ranging from 6.8% to 7.2% (2013: 7.2%) per annum.

(iv) As at 31 December 2014, bank borrowings of approximately RMB4,050,000 (equivalents to HK$5,106,000) is guaranteed by Greenspring (Nanjing), a wholly owned subsidiary of the Company, and carries fixed interest rate at 7.38% per annum. The Group also has a bank borrowings of approximately RMB9,600,000 (equivalents to HK$12,103,000) which is guaranteed by Greenspring (Nanjing) and Mr. Li Jian Ping, a director of Nanjing Feng Shang, and carries variable interest rate ranging from 7.2% to 7.4% per annum.

(v) As at December 2013, bank borrowings of approximately RMB4,000,000 (equivalents to HK$5,088,000) were guaranteed by Mr. Li Jian Ping and carries variable interest rate of 7.4% per annum. The Group also had a bank borrowings of approximately RMB5,000,000 (equivalents to HK$6,360,000) which is guaranteed by Mr. Li Jian Ping and carries fixed interest rate of 6.9% per annum.

(vi) As at 31 December 2014, the Group has bank borrowings of approximately RMB12,000,000 (equivalents to HK$15,128,000) which is guaranteed by the Company and carries variable interest rate ranging from 6.5% to 6.9% per annum.

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

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

31. OTHER LOANS

	The Group	
	2014	2013
	HK$'000	*HK$'000*
Other loans comprise of:		
Government loans *(note i)*	**71,579**	105,367
Loans from non-bank institutions *(note ii)*	**–**	10,430
Loans from employees *(note iii)*	**1,310**	2,544
	72,889	118,341
Analysed as:		
Secured	**–**	6,360
Unsecured	**72,889**	111,981
	72,889	118,341

	The Group	
	2014	2013
	HK$'000	*HK$'000*
Carrying amount repayable:		
On demand overdue loans	**8,875**	2,544
On demand or within one year	**4,744**	63,178
More than one year but not more than two years	**–**	925
More than two years but not more than five years	**1,260**	3,700
More than five years	**58,010**	47,994
	72,889	118,341
Less: Amount due within one year shown under current liabilities	**(13,619)**	(65,722)
Amount due from one year shown under non-current liabilities	**59,270**	52,619

31. OTHER LOANS *(Continued)*

Notes:

(i) As at 31 December 2014, government loans of approximately HK$10,086,000 (2013: HK$20,350,000), HK$12,252,000 (2013: HK$37,220,000) and HK$49,241,000 (2013: HK$47,797,000) are fixed-rate borrowings, floating-rate borrowings and interest-free borrowings, respectively. The fixed-rate borrowings carry interest ranging from 4.44% to 5% (2013: 2.33% to 5%) per annum and the floating-rate borrowings carry interest at fixed deposit rate as stipulated by the People's Bank of China plus 0.3% to 5% per annum (2013: 0.3% per annum). As at 31 December 2014, the government loans of HK$7,564,000 was due for repayment on or before 31 December 2014 (2013: HK$nil which was due for repayment on or before 31 December 2013), the government loans of HK$16,090,000 (2013: HK$58,900,000) are repayable on demand or within one year to eleven years (2013: one year to twelve years), and the remaining balances are repayable within thirteen years (2013: thirteen years) after completion of the relevant assets.

(ii) At 31 December 2013, loans from non-bank institutions with an aggregate amount of approximately HK$10,430,000 were fixed-rate borrowings carrying interest ranging from 5% to 11.1% per annum. A loan from non-bank institutions of HK$6,360,000 was guaranteed by an unrelated individual.

(iii) At 31 December 2014, loans from employees of approximately RMB1,040,000 (equivalent to HK$1,310,000) (2013: RMB2,000,000 (equivalent to HK$2,544,000)) are fixed-rate borrowings carrying interest at 20% (2013: 20%) per annum and due for repayment on or before 31 December 2014 (2013: HK$2,544,000 which was due for repayment on or before 31 December 2013).

32. AMOUNTS DUE TO NON-CONTROLLING SHAREHOLDERS OF SUBSIDIARIES

The amounts were unsecured, interest-free and repayable on demand.

33. LOANS FROM ASSOCIATES

As at 31 December 2014, a loan of HK$3,306,000 (2013: HK$3,178,000) from an associate was unsecured, carried interest at 6.15% (2013: 6.15%) per annum and was repayable within a year. The remaining balance from another associate was unsecured, interest-free and repayable on demand.

34. CONVERTIBLE BONDS

The Group and the Company

Issue of convertible bonds on 30 October 2013 ("30 October 2013 CB")

On 16 October 2013, the Company and the Subscriber (Prosper Talent Limited) entered into the Subscription Agreement in respect of the issue of and subscription for the Convertible Bonds to be issued in two tranches in an aggregate principal amount of HK$200 million in cash, comprising of the Series A Bond and the Series B Bond.

The net proceeds from the Subscription (after deducting all related expenses) of approximately HK$200 million are intended to be used for investment in the establishment and operation of water supply companies, sewage treatment companies and solid waste treatment companies.

34. CONVERTIBLE BONDS *(Continued)*

The Group and the Company *(Continued)*

Issue of convertible bonds on 30 October 2013 ("30 October 2013 CB") (Continued)

Series A Bonds:

Subscription of the Series A Bonds has been fulfilled and Series A Closing took place on 30 October 2013 with the issue of Series A Bonds in the principal amount of HK$100 million convertible into ordinary shares of the Company at the initial conversion Price of HK$1.65 per share. The bond has a maturity date of one year (ie maturity date falling on 30 October 2014), bears interest at 7.5% per annum payable semi-annually coupon and, on maturity, the bond will be redeemed at an aggregate price of 100% of the outstanding principal amount plus an interest of 12% per annum, less the interest amount already paid on the bond. The conversion price of HK$1.65 is subject to certain anti-dilution adjustments and certain events such as changes in the share capital of the Company including consolidation and sub-division of shares, capitalisation of profits or reserves, capital distribution, rights issue, or subsequent issue of securities in the Company at substantial discount (ie less than 90%) to market value.

Following the completion of placing on 12 June 2014, the conversion price of the Series A Bonds and Series B Bonds was adjusted from the initial conversion price of HK$1.65 per share to HK$1.57 per share.

The Company fully redeemed the outstanding Series A Bond upon maturity on 30 October 2014 in accordance with the terms of the bond instrument.

Series B Bonds:

Subscription of the Series B Bonds has been fulfilled and Series B Closing took place on 14 January 2014 with the issue of Series B Bonds in the principal amount of HK$100 million convertible into ordinary shares of the Company at the initial conversion Price of HK$1.65 per share. The terms of Series B Bonds are identical to those of Series A Bonds except that Series B Bonds have a maturity date of one year (ie maturity date falling on 14 January 2015).

The Company fully redeemed the outstanding Series B Bond upon maturity on 14 January 2015 in accordance with the terms of the bond instrument. Following the Series A Bond and Series B Bond being fully redeemed, the Company has no outstanding convertible bonds.

The Bonds contain liability component and conversion option

The fair value of the liability component on initial recognition was calculated based on the present value of the future interest and principal payments. The liability component of the convertible bonds is carried at amortised cost using the effective interest method. The effective interest rates of the liability component of Series A Bonds and Series B Bonds were 24.67% was and 30.21% per annum, respectively.

34. CONVERTIBLE BONDS *(Continued)*

The Group and the Company *(Continued)*

The embedded conversion option represents the bondholders' option to convert the convertible bonds into ordinary shares of the Company. However, since the conversion will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments, the conversion option is treated as a derivative and is measured at fair value at the end of each reporting period with changes in fair value recognised in profit or loss.

The movement of the liability and derivatives component of the convertible bonds is set out below:

	Liability *HK$'000*	Derivatives component embedded in convertible bonds *HK$'000*	Total *HK$'000*
Issuance of Series A Bonds	**89,915**	**10,085**	**100,000**
Imputed interest recognised	**3,481**	**–**	**3,481**
Coupon interest paid in advance	**(3,750)**	**–**	**(3,750)**
Loss on change in fair value of derivatives embedded in convertible bonds	**–**	**7,621**	**7,621**
At 31 December 2013 and 1 January 2014	**89,646**	**17,706**	**107,352**
Issuance of Series B Bonds	**86,178**	**13,822**	**100,000**
Imputed interest recognised	**43,399**	**–**	**43,399**
Coupon interest paid in advance	**(11,250)**	**–**	**(11,250)**
Redemption of Series A Bonds	**(104,500)**	**–**	**(104,500)**
Gain on change in fair value of derivatives embedded in convertible bonds	**–**	**(31,482)**	**(31,482)**
At 31 December 2014	**103,473**	**46**	**103,519**

	The Group and the Company **2014** ***HK$'000***	 2013 *HK$'000*
Total (gains) losses for the year included in profit or loss for liability held at the end of the reporting period	**(13,776)**	7,621

34. CONVERTIBLE BONDS *(Continued)*

The Group and the Company *(Continued)*

The fair value of the conversion option is calculated using the Binomial Model. The inputs into the model were as follows:

	Series B Bonds		Series A Bonds	
	At 12/31/2014	At date of issuance	At 12/31/2013	At date of issuance
Share price (HK$)	**1.51**	1.56	1.79	1.44
Conversion price (HK$)	**1.57**	1.65	1.65	1.65
Expected volatility *(a)*	**27.57%**	41.48%	37.26%	40.93%
Expected life – year *(b)*	**0.04**	1.0	0.8	1.0
Risk free rate *(c)*	**0.00%**	0.20%	0.17%	0.20%
Expected dividend yield *(d)*	**–**	–	–	–

Notes:

(a) Expected volatility was determined by calculating the historical volatility of the Company's share price.

(b) Expected life was the expected remaining life of the option.

(c) The risk free rate is determined by reference to the yield of HK Exchange Fund Notes/Bills with a maturity life equal to the time to maturity of the convertible bond as of the valuation date.

(d) The expected dividend yield was based on the historical dividend payment record of the Company.

35. CAPITAL AND RESERVES

(a) The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

(Amounts in HK$'000)

The Company	Share capital	Share premium	Investment revaluation reserve	Accumulated losses	Total
At 1 January 2013	555,166	484,002	1,110	(483,241)	557,037
Changes in equity for 2013:					
Loss for the year	–	–	–	(17,064)	(17,064)
Other comprehensive income for the year					
Investments disposed of during the year	–	–	(1,110)	–	(1,110)
Fair value gain recognised on available-for-sale investments	–	–	9,147	–	9,147
At 31 December 2013 and 1 January 2014	555,166	484,002	9,147	(500,305)	548,010
Changes in equity for 2014:					
Profit for the year	**–**	**–**	**–**	**74,871**	**74,871**
Other comprehensive income for the year – fair value gain recognised on available-for-sale investments	**–**	**–**	**15,147**	**–**	**15,147**
Reclassification on impairment	**–**	**–**	**16,353**	**–**	**16,353**
Investments disposed of during the year	**–**	**–**	**(40,647)**	**–**	**(40,647)**
Total comprehensive income for the year	**–**	**–**	**(9,147)**	**74,871**	**65,724**
Placing of new shares	**111,000**	**111,000**	**–**	**–**	**222,000**
Transaction costs attributable to issue of shares	**–**	**(5,600)**	**–**	**–**	**(5,600)**
At 31 December 2014	**666,166**	**589,402**	**–**	**(425,434)**	**830,134**

35. CAPITAL AND RESERVES *(Continued)*

(b) Share capital

	2014		2013	
	No. of shares	**Amount**	No. of shares	Amount
	'000	***HK$'000***	*'000*	*HK$'000*
Authorised:				
Ordinary shares of HK$0.50 each				
At 1 January and 31 December *(Note 1)*	**4,000,000**	**2,000,000**	4,000,000	2,000,000
Convertible preference shares of HK$0.10 each				
At 1 January and 31 December *(Note 2)*	**2,000,000**	**200,000**	2,000,000	200,000
Issued and fully paid:				
Ordinary shares of HK$0.50 each				
At 1 January	**1,110,332**	**555,166**	1,110,332	555,166
Placing of new shares *(Note 3)*	**222,000**	**111,000**	–	–
At 31 December	**1,332,332**	**666,166**	1,110,332	555,166

Note 1: The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

Note 2: Convertible preference shares do not carry the right to vote and not be entitled to any dividend payment or any distribution of the Company. No right for return of capital in liquidation is available for distribution among the holders of Convertible Preference Shares.

Note 3: On 30 May 2014, the Company entered into a placing agreement with the placing agent, pursuant to which the Company had through placing agent to place out 222,000,000 new ordinary shares at a placing price of HK$1 each to independent third parties. The transaction was completed on 12 June 2014. The net proceeds from the Placing was approximately HK$216.4 million which was intended to be used for (i) as to approximately 50% for repayment of convertible bonds; (ii) as to approximately 40% for future business development; and (iii) as to approximately 10% for general working capital of the Group.

(c) Nature and purpose of reserves

(i) Share premium

Under the Companies Law (Revised) of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the 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.

(ii) Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 3(cc).

35. CAPITAL AND RESERVES *(Continued)*

(c) Nature and purpose of reserves *(Continued)*

(iii) Reserve fund

Reserve fund arises from (i) Pursuant to applicable PRC regulations, certain PRC subsidiaries in the Group are required to appropriate 10% of their profit after tax (after offsetting prior year losses) to the statutory reserve until such reserve reaches 50% of their registered capital. Transfers to this reserve must be made before distribution of dividends to shareholders. Upon approval by relevant authorities, the statutory reserve can be utilised to offset the accumulated losses or to increase the registered capital of the subsidiary, provided that the balance after such issue is not less than 25% of its registered capital; and (ii) premium paid for capital injection in relation to the additional of equity interest of a subsidiary.

(iv) Investment revaluation reserve

The investment revaluation reserve comprises the cumulative net change in the fair value of available-for-sale investments held at the end of the reporting period and is dealt with in accordance with the accounting policies in notes 3(o) and 3(p)(i).

36. GOVERNMENT GRANTS

	The Group	
	2014	2013
	HK$'000	*HK$'000*
At 1 January	**95,980**	90,319
Additions	**214**	6,012
Recognised as other income for the year	**(214)**	(3,223)
Carrying amount of government grants upon repayment *(note)*	**(56,884)**	–
Disposal of a subsidiary	**(19,111)**	–
Exchange realignment	**(748)**	2,872
At 31 December, classified as non-current liabilities	**19,237**	95,980

Note: As requested by the local government authority in Yichun, Jiangxi Province, the PRC, the Group repaid RMB49 million (HK$61.8 million) of government grants in cash to the local government authority in September 2014. The excess of the cash repayment over the carrying amount of the government grants of HK$56.9 million was charged as administrative expenses in 2014.

Certain subsidiaries of the Group received government grants subsidising construction of water supply facilities. There are no unfulfilled conditions and other contingencies attaching to the government grants. The government grants were accounted for as non-current liabilities and amortised over the useful lives of the relevant water pipeline network and water plant assets. During the year, certain projects related to the construction of water pipeline network has been completed and being used in the year. Deferred government grants of approximately HK$214,000 (2013: HK$3,223,000) was amortised and recognised in the consolidated statement of profit or loss.

37. DEFERRED TAX (ASSETS)/LIABILITIES

The Group

The following are the major deferred tax (assets)/liabilities recognised and movements thereon during the current and prior years:

	Withholding tax on undistributed profits HK$'000	Service concession arrangements HK$'000	Exclusive rights HK$'000	Revaluation on investment property HK$'000	Revaluation on investments HK$'000	Total HK$'000
At 1 January 2013	6,201	10,107	–	2,449	–	18,757
Charged to profit or loss for the year	4,126	1,019	–	764	–	5,909
Arising from acquisition of a subsidiary *(note 38)*	–	–	9,777	–	–	9,777
Exchange differences	67	34	10	89	–	200
At 31 December 2013 and 1 January 2014	10,394	11,160	9,787	3,302	–	34,643
Charged to profit or loss for the year	**1,146**	**2,890**	**(749)**	**151**	**11,509**	**14,947**
Arising from acquisition of subsidiaries *(note 38)*	**–**	**–**	**21,496**	**–**	**–**	**21,496**
Disposal of subsidiaries	**(3,487)**	**(3,072)**	**–**	**–**	**–**	**(6,559)**
Exchange differences	**(59)**	**(67)**	**(42)**	**(29)**	**–**	**(197)**
At 31 December 2014	**7,994**	**10,911**	**30,492**	**3,424**	**11,509**	**64,330**

Reconciliation to the consolidated statements of financial position

	2014 ***HK$'000***	2013 *HK$'000*
Deferred tax assets	**(1,327)**	(1,226)
Deferred tax liabilities	**65,657**	35,869
	64,330	34,643

At 31 December 2014, the Group had unused tax losses of HK$28,254,000 (2013: HK$53,024,000) available to offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. As at December 31, 2014, no tax losses can be carried forward indefinitely and tax losses of HK$28,254,000 will expire in five years' time.

37. DEFERRED TAX (ASSETS)/LIABILITIES *(Continued)*

At 31 December 2014, the Group also has other deductible temporary differences of approximately HK$111,322,000 (2013: HK$169,160,000). No deferred tax asset has been recognised in relation to such deductible temporary differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be recognised.

Under the EIT law of PRC, withholding tax is imposed on dividend declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. For investors incorporated in Hong Kong which hold at least 25% of equity interest of those PRC companies, a preferential rate of 5% will be applied. Deferred tax has been provided for in respect of the temporary difference attributable to such profits amounting to approximately HK$159,880,000 (2013: HK$207,880,000). The Group has applied the preferential rate of 5% as all the Group's subsidiaries and an associate in the PRC are directly held by an investment holding company incorporated in Hong Kong.

The Company

The following are the major deferred tax liabilities recognised and movements thereon during the current and prior years.

	Revaluation on investments	
	2014	2013
	HK$'000	*HK$'000*
At 1 January	**–**	–
Charged to profit or loss for the year	**11,509**	–
At 31 December	**11,509**	–

38. ACQUISITION OF SUBSIDIARIES

(1) Nanjing Feng Shang

On 5 July 2013, China Water Industry (HK) Limited, an indirect wholly-owned subsidiary of the Company, and three independent third parties entered into the sale and purchase agreement to acquire the entire equity interest of Nanjing Feng Shang for a cash consideration of RMB39,600,000 (HK$50,713,000). The acquisition has been accounted for using the acquisition method. The amount of goodwill arising as a result of the acquisition was HK$8,643,000.

Pursuant to a cooperative agreement on 28 June 2010, Nanjing Feng Shang was granted the right by 南京市生活廢棄物處理管理處 to collect and utilise landfill gas in a landfill site in Nanjing until 30 June 2025.

The management believes that the acquisition will provide a good business opportunity to the Company in the biogas power generation industry in Nanjing, the PRC.

On 9 August 2013, the Company paid RMB8 million to the vendors as partial settlement of the consideration.

On 30 October 2013, the Company paid RMB27.64 million to the vendors as a partial settlement. The acquisition is considered to be completed on 30 October 2013.

The final instalment of RMB3.96 million (HK$5.11 million) was paid by the Company on 23 January 2014.

	2014
	HK$'000
Total cash consideration received	**45,606**
Consideration receivables	**5,107**
Total consideration received and receivable	**50,713**

38. ACQUISITION OF SUBSIDIARIES *(Continued)*

(1) Nanjing Feng Shang *(Continued)*

The net assets acquired in the transaction and the goodwill arising are as follows:

	Fair value
	HK$'000
Other intangible assets *(note 21)*	41,411
Property, plant and equipment	23,352
Trade and other receivables	7,378
Bank balances and cash	632
Trade and other payables	(8,305)
Bank loans	(12,621)
Deferred tax liabilities	(9,777)
Total identified net assets	42,070
Goodwill arising on acquisition of a subsidiary	8,643
Consideration, satisfied in cash	50,713
Consideration payable *(note 28)*	(5,107)
Cash and cash equivalent balances acquired	(632)
Net cash outflow	44,974

The fair value of trade and other receivables at the date of acquisition of HK$7,378,000 were the same as the gross contractual amounts.

The above goodwill is attributable to Nanjing Feng Shang's strong position and profitability in the biogas power generation business in Nanjing, the PRC. These benefits were not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on the acquisition is expected to be deductible for the tax purpose.

For the two months ended 31 December 2013, Nanjing Feng Shang contributed revenue and profit of HK$5,665,000 and HK$3,307,000 respectively to the revenue and profit of the Group for the year ended 31 December 2013.

Had the business combination been effected on 1 January 2013, the revenue and profit of the Group for the year ended 31 December 2013 would have been HK$532,740,000 and HK$106,951,000, respectively. The directors consider these "pro-forma" numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

38. ACQUISITION OF SUBSIDIARIES *(Continued)*

(2) Shenzhen Li Sai

On 23 January 2014, Greenspring (Nanjing), an indirect wholly-owned subsidiary of the Company, entered into the sale and purchase agreement with two independent parties for the purpose of acquiring approximately 88% of the issued share capital of Shenzhen Li Sai at a cash consideration of RMB59,840,000 (HK$75,017,000). The acquisition has been accounted for using the acquisition method. The amount of goodwill arising as a result of the acquisition was HK$12,998,000.

Shenzhen Li Sai obtained the exclusive operation rights for the project of conversion of the Shenzhen City Xiaping Solid Waste Landfill Site* 深圳市下坪固體廢棄物填埋場 (the "Shenzhen Xiaping Landfill Site") into compressed natural gas in the Shenzhen Xiaping Landfill Site fora term of seventeen years until 1 April 2030. It is expected that the project will be commenced in April 2015.

In addition, Shenzhen Li Sai has also entered into a purchase and sale agreement of gas in relation to the conversion of the landfill gas into compressed natural gas with Shenzhen Gas Corporation Ltd.

The management believes that the acquisition will provide a good business opportunity to the Company in the compressed natural gas generation industry in Shenzhen, the PRC.

Up to 31 December 2014, the Group has fully settled the consideration. The acquisition is considered to be completed on 28 August 2014.

The net assets acquired in the transaction and the goodwill arising are as follows:

	Fair value *HK$'000*
Other intangible assets *(note 21)*	71,505
Property, plant and equipment	11,645
Inventories	101
Trade and other receivables	17,436
Bank balances and cash	2,353
Trade and other payables	(13,258)
Deferred tax liabilities	(19,306)
Total identified net assets	70,476
Non-controlling interest	(8,457)
Goodwill arising on acquisition of a subsidiary	12,998
Consideration, satisfied in cash	75,017
Cash and cash equivalent balances acquired	(2,353)
Net cash outflow	72,664

38. ACQUISITION OF SUBSIDIARIES *(Continued)*

(2) Shenzhen Li Sai *(Continued)*

The fair value of trade and other receivables at the date of acquisition of HK$17,436,000 were the same as the gross contractual amounts. None of the receivables have been impaired and it is expected the full contractual amounts can be collected.

The non-controlling interests (12%) in Shenzhen Li Sai recognised at acquisition date were measured by reference to the proportionate share of recognised amounts of net assets of Shenzhen Li Sai.

The above goodwill is attributable to Shenzhen Li Sai's strong position in the biogas power generation business in Shenzhen, the PRC. These benefits were not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on the acquisition is expected to be deductible for the tax purpose.

For the 4 months ended 31 December 2014, Shenzhen Li Sai contributed revenue and loss of HK$nil and HK$1,019,000, respectively, to the revenue and profit of the Group for the year ended 31 December 2014. During this period, Shenzhen Li Sai recorded revenues of HK$5,486,000 from extraction and sale of raw materials (biogas), which was classified as other operating income on these consolidated financial statements.

Had the business combination been effected on 1 January 2014, the revenue and profit of the Group for the year ended 31 December 2014 would have been HK$507,963,000 and HK$205,166,000, respectively. The directors consider these "pro-forma" numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

(3) Huiming Technology

On 21 March 2014, Greenspring (Nanjing), an indirect wholly-owned subsidiary of the Company, entered into the sale and purchase agreement with two independent third parties to acquire the entire issued share capital of Huiming Technology for a consideration of RMB15,000,000 (HK$18,840,000). The acquisition has been accounted for using the acquisition method. The amount of goodwill arising as a result of the acquisition was HK$735,000.

Huiming Technology currently possesses of a waste landfill biogas resource utilization project in Zhuzhou (the "Zhuzhou Biogas Project") and has the right for the exclusive use of all the biogas resources from the waste landfill sites in the city of Zhuzhou for a period until 1 October 2023. The estimated annual production output of the landfill biogas for the Zhuzhou Biogas Project is approximately 12 million m^3.

The management believes that the acquisition will provide a good business opportunity to the Company in the biogas power generation industry in Hunan, the PRC.

Up to 31 December 2014, the Group has paid RMB4,050,000 (HK$5,654,000) as partial settlement of the consideration. The acquisition is considered to be completed on 18 November 2014.

38. ACQUISITION OF SUBSIDIARIES *(Continued)*

(3) Huiming Technology *(Continued)*

	2014 HK$'000
Total consideration received	**5,609**
Consideration receivables	**13,237**
Total consideration received and receivable	**18,846**

The net assets acquired in the transaction and the goodwill arising are as follows:

	Fair value HK$'000
Other intangible assets *(note 21)*	12,452
Property, plant and equipment	22,383
Inventories	112
Trade and other receivables	4,705
Bank balances and cash	406
Trade and other payables	(2,167)
Bank loans	(17,590)
Deferred tax liabilities	(2,190)
Total identified net assets	18,111
Goodwill arising on acquisition of a subsidiary	735
Consideration, satisfied in cash	18,846
Consideration payable *(note 28)*	(13,237)
Cash and cash equivalent balances acquired	(406)
Net cash outflow	5,203

The fair value of trade and other receivables at the date of acquisition of HK$4,705,000 were the same as the gross contractual amounts. None of the receivables have been impaired and it is expected the full contractual amounts can be collected.

The above goodwill is attributable to Huiming Technology's strong position in the biogas power generation business in Hunan, the PRC. These benefits were not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on the acquisition is expected to be deductible for the tax purpose.

From the date of acquisition to 31 December 2014, Huiming Technology contributed revenue and profit of HK$1,019,000 and HK$346,000, respectively, to the revenue and profit of the Group for the year ended 31 December 2014.

Had the business combination been effected on 1 January 2014, the revenue and profit of the Group for the year ended 31 December 2014 would have been HK$518,104,000 and HK$219,942,000, respectively. The directors consider these "pro-forma" numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

39. DISPOSAL OF SUBSIDIARIES

(a) On 16 December 2014, the Group disposed of 70% equity interest of Super Sino Investment Limited ("Super Sino"), together with 70% of the entire loan due and payable by the Disposal Group, to Guangdong Water Group (H.K.) Limited. Super Sino, together with its various wholly-owned subsidiaries (excluding Anhui Dang Shan Water Industry Company Ltd. (see note 39(b)) (collectively the "Disposal Group"), carried out water supply, water testing and installation of water supply facilities in Danzhou, Hainan Province, the PRC. Thereafter, the Group retains a 30% equity interest in these entities which are accounted for as associates (note 24).

Consideration received

	2014 ***HK$'000***
Cash consideration (RMB175 million)	**221,022**
Fair value of interest retained by the Group as associates *(note 24)*	**2,072**
Total consideration received and receivable	**223,094**
Analysis of assets and liabilities over which control was lost	
Current assets	
Cash and cash equivalents	**680**
Trade and other receivables	**8,097**
Inventories	**7,124**
Prepaid lease payments	**236**
Non-current assets	
Property, plant and equipment	**95,935**
Prepaid lease payments	**14,738**
Concession intangible assets	**105,969**
Current liabilities	
Trade and other payables	**(1,159)**
Payables to the Group	**(108,320)**
Amounts due to non-controlling shareholders	**(32,496)**
Other loans	**(52,352)**
Income tax payables	**(5,874)**
Non-current liabilities	
Government grants	**(19,111)**
Deferred tax liabilities	**(6,559)**
Net assets disposed of	**6,908**

39. DISPOSAL OF SUBSIDIARIES *(Continued)*

(a) *(Continued)*

Consideration received (Continued)

	2014 HK$'000
Gain on disposal of a subsidiaries	
Total consideration received	132,718
Consideration receivables *(note 26)*	88,304
Fair value of interest retained by the Group as associate *(note 24)*	2,072
Cost directly attributable to the disposal	(7,253)
	215,841
Carrying value of former subsidiary's net assets disposed of	(6,908)
Release of reserve upon disposal of subsidiaries	6,295
70% of amounts due from the Disposal Group	(75,824)
Impairment on the remaining 30% of amounts due from the Disposal Group	(32,496)
Gain on disposal of subsidiaries	106,908
Net cash inflow on disposal of subsidiaries	
Consideration received in cash and cash equivalents	132,718
Cost directly attributable to the disposal	(5,089)
Cash and cash equivalent balances disposed of	(680)
	126,949

In January 2015, the third installment of the consideration of RMB52.5 million (approximately HK$65.12 million) was settled. The remaining amount of RMB17.5 million (approximately HK$23.1 million) shall be settled by June 2015.

Included in the impairment loss is the amount due from the Disposal Group of HK$32,496,000 which is long outstanding. In the opinion of the directors of the Company, the possibility of the recovery of this balance was remote, therefore an allowance of approximately HK$32,496,000 was made.

According to the sale and purchase agreement, the Company pledged 3 ordinary shares in the issued share capital of Super Sino, representing 30% of the entire issued share capital of Super Sino to and in favour of the purchaser. Upon the fulfillment of certain undertakings mentioned in the sale and purchase agreement, the purchaser has irrevocably undertaken to the Company to release the share pledge, details of which are set out in the announcement of the Company on 15 September 2014. The directors consider the performance risk of these undertakings and are of the opinion that these undertakings should have no material impact on the results and financial position of the Group.

39. DISPOSAL OF SUBSIDIARIES *(Continued)*

(b) As a condition precedent to the completion of disposal of 70% equity interest of Super Sino (note 39(a)), on 6 November 2014, the Group disposed of its entire interest of Anhui Dang Shan Water Industry Company Limited which carried out water supply in the Anhui Province, the PRC.

	2014 ***HK$'000***
Total consideration received and receivable	–
Analysis of assets and liabilities over which control was lost	
Current assets	
Cash and cash equivalents	**176**
Trade and other receivables	**1,971**
Inventories	**738**
Non-current assets	
Property, plant and equipment	**15,963**
Current liabilities	
Trade and other payables	**(22,033)**
Payables to the Group	**(7,044)**
Other loans	**(1,514)**
Net liabilities disposed of	**(11,743)**
Gain on disposal of a subsidiary	
Net liabilities disposed of	**11,743**
Release of reserve upon disposal of subsidiaries	**5,176**
Amount due from Anhui Dang Shan Water Industry Company Limited	**(7,044)**
Gain on disposal of a subsidiary	**9,875**
Net cash outflow on disposal of a subsidiary	
Cash and cash equivalent balances disposed of	**(176)**

Included in the impairment loss is the amount due from Anhui Dang Shan Water Industry Company Limited of HK$7,044,000 which is long outstanding. In the opinion of the directors of the Company, the possibility of the recovery of this balance was remote, therefore an allowance of approximately HK$7,044,000 was made.

40. CAPITAL COMMITMENTS

Capital commitments outstanding at 31 December 2014 not provided for in the financial statements were as follows:

	The Group	
	2014	2013
	HK$'000	*HK$'000*
Contracted but not provided for:		
– Acquisition of prepaid lease payments	**–**	52,784
– Acquisition of concession intangible assets, plant and equipment	**92,393**	83,768
– Properties under development in relation to development cost of existing projects	**26,646**	–
	119,039	136,552

41. OPERATING LEASES

The Group as lessee

The Group leases certain of its factory premises, plant and staff quarters under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to ten years. Rental was fixed at the inception of the lease. No provision for contingent rent and terms of renewal were established in the leases.

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2014	2013
	HK$'000	*HK$'000*
Within one year	**3,501**	1,663
After one year but within five years	**3,672**	611
After five years	**745**	267
	7,918	2,541

41. OPERATING LEASES *(Continued)*

The Group as lessor

Property rental income earned during the year was approximately HK$1,417,000 (2013: HK$1,317,000). The properties are expected to generate rental yields of 7% (2013: 7%) per annum on an ongoing basis. The properties have committed tenants for twenty years. None of the leases includes contingent rentals.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2014	2013
	HK$'000	*HK$'000*
Within one year	**1,517**	1,180
After one year but within five years	**5,486**	5,269
After five years	**22,402**	24,055
	29,405	30,504

42. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option scheme

The 2011 Scheme

On 3 June 2011, the Company has adopted new share option scheme (the "2011 Scheme") to replace the 2002 Scheme.

Further details are set out in the announcement of the Company dated 29 April 2011. The 2011 Scheme is valid and effective for a period of 10 years after the date of adoption.

Under the terms of the 2011 Scheme, the Directors of the Company may, at their discretion, grant options to the employees, executive or non-executive Directors, business associate, person or entity that provides research, development or other technological support to any shareholder of any member of the Group or any invested entity, any adviser or consultant to any owner of business or business development of any member of the Group or any invested entity (the "Eligible Participants").

A nominal consideration of HK$1 is payable on acceptance of the grant of an option which will entitle the holders to subscribe for shares of the Company during a period of 10 years commencing on the date of acceptance of the option at a price at least the highest of (i) the nominal value of the shares of the Company; (ii) the closing price of the shares of the Company on the Stock Exchange on the date of grant; and (iii) the average of the closing prices of the shares of the Company on the Stock Exchange for the five trading days immediately preceding the date of the grant of the option.

42. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

Equity-settled share option scheme *(Continued)*

The 2011 Scheme (Continued)

Share options granted to connected person and its associates is subject to the approval of the Independent Non-Executive Directors ("INEDs"). In addition, any grant of share options to a substantial shareholder or an INED or any of their respective associates, in excess of 0.1% of the shares of the Company in issue and with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, is subject to the approval of the shareholders of the Company in a general meeting.

The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the 2011 Scheme and any other schemes of the Company must not exceed 30% of the shares of the Company in issue from time to time. Subject to the shareholders' approval, the maximum number of shares in respect of which options may be granted under the 2011 Scheme shall not exceed 10% of the shares in issue as at the date of the approval, or the maximum number of shares in respect of which options may be granted to any Eligible Participants may not exceed 1% of the shares in issue from time to time in a 12-month period. Except for the entitlements of dividends, bonus, rights declared before the exercise of options, any shares allotted and issued on the exercise of an option will rank pari passu with the other shares in issue at the date of exercise of the relevant option.

As at 31 December 2014 and 2013, no options had been granted and remained outstanding under the 2011 Scheme of the Company.

43. RETIREMENT BENEFIT SCHEMES

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group and its employees each contribute 5% of relevant payroll costs to the scheme. Effective from 1 June 2014, the cap of monthly relevant income has increased from $25,000 to $30,000.

The employees of the Group's subsidiaries in the PRC are required to participate in the CPS operated by the local municipal governments. These PRC subsidiaries are required to contribute 8% to 10% of its payroll costs to the CPS. The contributions are charged to the consolidated statement of profit or loss as they become payable in accordance with the rules of the CPS.

The total cost charged to the consolidated statement of profit or loss of approximately HK$23,454,000 (2013: HK$10,078,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

44. LITIGATIONS AND ARBITRATION

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

On 30 May 2007, a Petition was filed under sections 168A and 177 of the predecessor Company Ordinance (Cap. 32) to windup Technostore Limited ("Technostore"), a company in which the Company held 50.01% of the issued shares. The Petition was commenced by Mr. Mao Chi Fai ("Mr. Mao"), the minority shareholder of Technostore holding 49.99% of the issued shares. Following court hearings regarding the winding-up proceeding in the preceding year, on 29 August 2008, the court made an order to appoint Kenny Tam & Company ("Liquidator"), Certified Public Accountant as a liquidator of Technostore and Happy Hour Limited and Mr. Mao to become members in the committee of inspection. In October 2009, all stocks of Technostore with costs valued at approximately HK$2.2 million transferred by the Official Receiver's Office to the Liquidator were disposed at the consideration of around HK$0.62 million by public tender. Preferential and ordinary dividends were distributed in November 2010. Further, a sum of less than HK$1,000 was realized from the bank accounts of Technostore. On 25 August 2011, the Liquidator indicated that no additional assets of Technostore have been realized and it anticipates that there will be no further assets for realization. The Liquidator has further indicated that it will apply to the Court for his release as the liquidator of Technostore after the determination of a validation order. On 29 February 2012, the Liquidator further advised that there was no additional assets realization since 25 August 2011. The Liquidators also advised that they are preparing an application for validation order and will file their release application pending sanction of the validation order by the Court. On 11th August 2012, the Liquidator also advised that they are in the course of preparing the application of the validation order. As at 11th August 2012, the Liquidator advised that the amount of the said validation order should be within HK$0.4 million. On 9th March 2013, the Liquidator advised that the said application of the validation order will not be pursued as there is no benefit to the creditors for taking further action on the same. The Liquidator also advised that, as a consequence, there will be no further outstanding assets to be handled and the Liquidator will proceed to make an application to the court for his release. As at 16 August 2013, the Liquidator informed the Company that it is presently not in position to make an application to the High Court to release the duty of Liquidator as the necessary documents from Mr. Mao not yet to receive. On 30 January 2014, advised by the Liquidator that the High Court would approve the application of releasing Liquidator and dissolution of Technostore within the next three months. On 25 July 2014, High Court issued the court order to confirm that Technostore was dissolved and the Liquidator was released on 2 July 2014. On 1 August 2014, Liquidator had published the notice on Gazette relating to the release of his duty.

The directors of the Company believe that no material future out flows resources from the Group is expected and sufficient provision on assets related to Technostore have been provided. It is unlikely that there will be a material adverse financial impact of the Group.

44. LITIGATIONS AND ARBITRATION *(Continued)*

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

Guangzhou Hyde Environmental Protection Technology Co. Ltd.* (廣州市海德環保科技有限公司) ("Guangzhou Hyde") (an indirect wholly-owned subsidiary of the Company) and Yunnan Chaoyue Gas Company Limited* (雲南超越燃氣有限公司) ("Yunnan Chaoyue Gas") entered into the cooperation contract dated 13 October 2010, pursuant to which Guangzhou Hyde shall paid a refundable deposit of HK$10 million ("Deposit") to Yunnan Chaoyue Gas for the purpose of obtaining the operation and management right of the Yunnan Dian Lake project ("Project").

Pursuant to the cooperation contract, Yunnan Chaoyue Gas shall refund the Deposit to Guangzhou Hyde within nine months once it was unsuccessfully to obtain the Project. Yunnan Chaoyue Gas has failed to repay the aforesaid Deposit to Guangzhou Hyde when it fell due despite Guangzhou Hyde's repeated requests and demands.

The Deposit was classified as loan receivable and fully impaired in 2011.

The dispute over cooperative contract between Guangzhou Hyde and Yunnan Chaoyue Gas was applied to Guangzhou Arbitration Commission ("Commission") for arbitration on 24 February 2012. The Commission accepted the case and started a trail on 5 June 2012. After the trial, arbitration tribunal ruled an award on 12 June 2012, adjudging that Yunnan Chaoyue Gas should pay Guangzhou Hyde the principal of RMB8.56 million and overdue interests thereon; and the relevant arbitration fees.

The above award confirmed the amount to be paid by Yunnan Chaoyue Gas to Guangzhou Hyde should be settled in one-off manner within 10 days from the date on which this award is served. Late payment will result in proceedings set out in article 229 of Civil Procedure Laws of the People's Republic of China. As Yunnan Chaoyue Gas has not performed repayment obligation under the award on time, Guangzhou Hyde applied to Kunming Intermediate People's Court (the "Kunming Court") for civil enforcement on 21 July 2012, and Kunming Court has accepted such application.

On 13 May 2013, Yunnan Chaoyue Gas provided loan repayment plan (the "Repayment Plan") to Guangzhou Hyde. Owing to without information of the assets owned by Yunnan Chaoyue Gas and given the Repayment Plan, Kunming Court has stopped to execute the civil enforcement. Notwithstanding, the Company has reserved its right to petition the Kunming Court to resume the enforcement proceeding once locating any assets owned by Yunnan Chaoyue Gas in PRC. Up to the date of approval of these financial statements, Yunnan Chaoyue Gas has not performed the repayment obligation according to the Repayment Plan.

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

45. MATERIAL RELATED PARTY TRANSACTIONS

(a) The amounts due from subsidiaries are unsecured, interest-free and repayable on demand.

The balances with other related parties at the end of the reporting period are disclosed elsewhere in the consolidated financial statements.

(b) During the year ended 31 December 2013, an indirect wholly-owned subsidiary of the Company acquired a motor vehicle from the spouse of Mr. Wang De Yin, the Company's chairman and Chief Executive Officer, at a consideration of RMB1,100,000 (approximately HK$1,386,000) for the Group's daily use.

(c) **Compensation of key management personnel**

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 13, is as follows:

	2014	2013
	HK$'000	*HK$'000*
Short-term employee benefits	**12,942**	7,897
Post-employment benefits	**91**	80
	13,033	7,977

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

46. CONTINGENT LIABILITIES

As at the end of the reporting period, the Company has issued a guarantee to a bank in respect of a bank borrowing made by a wholly owned subsidiary which expires on 26 September 2019.

As at the end of the reporting period, the directors do not consider it probable that a claim will be made against the Company under the guarantee. The maximum liability of the Company at the end of the reporting period under the guarantee issued is the outstanding amount of the bank borrowing of the wholly owned subsidiary of HK$15,128,000 (2013: HK$nil).

The Company has not recognised any deferred income in respect of the guarantee as its fair value cannot be reliably measured using observable market data and its transaction price was $nil.

47. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2014

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments and new standards which are not yet effective for the year ended 31 December 2014 and which have not been adopted in these financial statements.

HKFRS 9	Financial Instruments[1]
HKFRS 14	Regulatory Deferral Accounts[2]
HKFRS 15	Revenue from Contracts with Customers[3]
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations[5]
Amendments to HKAS 1	Disclosure Initiative[5]
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[5]
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants[5]
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions[4]
Amendments to HKAS 27	Equity Method in Separate Financial Statements[5]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception[5]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010-2012 Cycle[6]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011-2013 Cycle[4]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle[5]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016
3 Effective for annual periods beginning on or after 1 January 2017
4 Effective for annual periods beginning on or after 1 July 2014
5 Effective for annual periods beginning on or after 1 January 2016
6 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions.

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

In addition, the requirements of Part 9, "Accounts and Audit", of the new Hong Kong Companies Ordinance (Cap. 622) come into operation from the Company's first financial year commencing after 3 March 2014 (i.e. the Company's financial year which began on 1 January 2015) in accordance with section 358 of that Ordinance. The Group is in the process of making an assessment of the expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9. So far it has concluded that the impact is unlikely to be significant and will primarily only affect the presentation and disclosure of information in the consolidated financial statements.

FIVE YEARS FINANCIAL SUMMARY

	2010 HK$'000	2011 HK$'000 (restated)	2012 HK$'000 (restated)	2013 HK$'000	**2014 HK$'000**
Results					
Turnover	238,771	266,117	327,885	510,959	**507,963**
Finance costs	(9,534)	(31,948)	(31,744)	(15,352)	**(21,670)**
(Loss) profit before tax	(166,667)	(521,225)	81,920	152,657	**291,410**
Income tax expense	(10,813)	(13,425)	(35,998)	(46,697)	**(61,775)**
(Loss) profit for the year (including discontinued operations)	(149,796)	(534,650)	45,922	105,960	**229,635**
Discontinued operations					
(Loss) profit for the year from discontinued operations	27,684	–	–	–	**–**
Assets and liabilities					
Property, plant & equipment	97,598	97,250	111,733	161,433	**159,310**
Prepaid lease payments	40,621	43,002	41,629	41,381	**25,110**
Concession intangible assets	483,829	520,477	530,591	622,630	**546,766**
Investment property	–	–	17,390	21,037	**21,457**
Other intangible assets	142,373	10,292	10,292	59,763	**176,111**
Available-for-sale investments	29,898	53,959	68,439	95,781	**26,016**
Interest in associates	281,407	37,962	32,831	32,680	**39,563**
Deposit paid for acquisition of plant and equipment	–	–	5,663	272	**5,282**
Deposits paid for acquisition of subsidiaries	–	–	3,589	–	**–**
Deposit paid for acquisition of prepaid lease payments	–	–	–	40,701	**–**
Deferred tax assets	–	–	–	1,226	**1,327**
Net current assets (liabilities)	(303,574)	(167,390)	40,870	(39,225)	**446,814**
Total assets less current liabilities	772,152	595,552	863,027	1,037,679	**1,447,756**
Share capital	324,765	410,332	555,166	555,166	**666,166**
Reserves	124,128	(316,962)	(90,223)	(11,492)	**273,411**
Non-controlling interests	179,164	190,799	219,904	282,827	**330,417**
Bank borrowing due after one year	21,253	18,309	34,532	26,710	**33,598**
Other loans – due after one year	47,487	70,686	34,572	52,619	**59,270**
Convertible bonds – due after one year	3,000	138,568	–	–	**–**
Government grants	64,074	71,345	90,319	95,980	**19,237**
Deferred tax liabilities	8,281	12,475	18,757	35,869	**65,657**
	772,152	595,552	863,027	1,037,679	**1,447,756**
Earnings (loss) per share					
Basic	(32.72 cents)	(139.11 cents)	3.96 cents	5.53 cents	**16.50 cents**
Diluted	(32.72 cents)	(139.11 cents)	3.96 cents	5.53 cents	**14.11 cents**