



CETH

China Environmental Technology Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 646



**Create for a
better tomorrow**



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CORPORATE INFORMATION

Board of Directors

Executive Directors:

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

Non-executive Directors:

Mr. Cao Guoxian
 Mr. Ma Tianfu

Independent Non-executive Directors:

Mr. Tse Chi Wai*
 Mr. Xin Luo Lin*
 Prof. Zhu Nan Wen
 Prof. Li Jun*
 Prof. Zuo Jiane*

Audit Committee

Mr. Tse Chi Wai (*Chairman*)*
 Mr. Xin Luo Lin*
 Prof. Zhu Nan Wen
 Prof. Li Jun*
 Prof. Zuo Jiane*

Remuneration Committee

Mr. Tse Chi Wai (*Chairman*)*
 Mr. Xin Luo Lin*
 Prof. Zhu Nan Wen
 Prof. Li Jun*
 Prof. Zuo Jiane*

Nomination Committee

Mr. Xu Zhong Ping (*Chairman*)
 Mr. Tse Chi Wai*
 Mr. Xin Luo Lin*
 Prof. Zhu Nan Wen
 Prof. Li Jun*
 Prof. Zuo Jiane*

Company Secretary

Mr. Tang Yau Sing

Independent Auditor

RSM Hong Kong
Certified Public Accountants

Legal Advisers

Conyers Dill & Pearman

* Mr. Tse Chi Wai was appointed on 27 May 2015

* Mr. Xin Luo Lin was retired on 27 May 2015

* Prof. Li Jun was appointed on 6 April 2016

* Prof. Zuo Jiane was resigned on 6 April 2016

CORPORATE INFORMATION

**Principal Share Registrar
and Transfer Office**

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

**Hong Kong Branch Share Registrar
and Transfer Office**

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

Registered Office

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

**Head Office and Principal
Place of Business**

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

Listing Information

The Stock Exchange of Hong Kong Limited
Stock Code: 646

PRINCIPAL BANKERS

DBS Bank (Hong Kong) Limited
Hang Seng Bank Limited

Company Website

www.cethl.com

CHAIRMAN'S STATEMENT

Creating corporate value and translate into its competitive advantage by business diversification



To All Shareholders:

After the disposal of major assets at the early of 2015, the Company has focused on the development of environmental technology. Beijing Jingrui Kemai Water Purification Technology Company Limited has successfully turned loss into profit. Shenzhen Huaxin Zhongshui Protection Engineering Company Limited has achieved its business growth.

The business development inevitably needs to undergo a process, and I believed that our Company will experience an upward trend in its business, talents and market share since 2016.

2016 is the first year of “the 13th Five-Year Plan”, the Company will comply with the development concepts and environmental protection policies of China central government. At the meantime, the Company will strive for identifying investors with strong capability to achieve growth together, with an aim to explore additional investment opportunities for the Company and broaden our income streams.

CHAIRMAN'S STATEMENT



Last but not the least, I would like to take this opportunity to thank our management and staff for their efforts and contribution towards the Group. I would also like to extend my wholehearted thanks to all valued business partners, customers and shareholders for their continued support to the Group.

On behalf of the Board

Mr. Xu Zhong Ping

Chairman

Hong Kong, 31 March 2016

MANAGEMENT DISCUSSION AND ANALYSIS



Provision of comprehensive solution for water quality maintenance of rivers and lakes and the manipulation project of the rural environment will become our core business

Results

For the year ended 31 December 2015, the Group recorded a turnover from continuing operations of approximately HK\$61,999,000 (2014: HK\$89,319,000) and recorded a turnover from discontinued operations of approximately HK\$21,459,000 (2014: HK\$49,345,000). The Group's loss from continuing operations attributable to owners of the Company was approximately HK\$70,148,000 (2014: HK\$52,821,000) and the Group's loss from discontinued operations attributable to owners of the Company was approximately HK\$3,969,000 (2014: HK\$22,486,000). Gross profit margin from continuing operations was approximately 32.7% as compared to 25.5% in last year and gross profit margin from discontinued operations was approximately 8.6% as compared to 14.0% in last year.

Business Review

It is a tumultuous year for the global economy in 2015. As China accelerates into comprehensive reform, pushing toward a new growth model focusing on green, low-carbon and sustainable development under the 'New Normal', China's green economy and environmental protection industry are set to embrace an unprecedented opportunity for long-term growth.

At midnight of August 12, 2015, with two great roars at Tianjin Port, some of the dangerous materials, sodium cyanide, at the scene of the accident instantaneously scattered in the air, leading to water pollution in some areas. According to an investigation into the water quality, in 8 out of 40 testing sites, cyanide was found excessive. In order to prevent toxic waste water leaking,

MANAGEMENT DISCUSSION AND ANALYSIS



local government has taken clogging methods and has set the principle of “Block the front area, Seal the rear area, and Treat with the middle area”. Professor Wang Kaijun, the deputy Dean of School of Environment in Tsinghua University was engaged to deal with the issue on an emergency basis. He convened prestigious domestic experts to immediately form an environmental emergency response team to deal with cyanide-containing wastewater. Beijing Jingrui Kemai Water Purification Technology Co., Ltd. (北京精瑞科邁淨水技術有限公司) (“Beijing Jingrui”), a wholly-owned subsidiary of the Company, a high-tech environmental protection enterprise has drew wide concern from Tsinghua University and water environmental protection industry with its magnetic separation technology to create a new concept of emergency sewage treatment. To deal with the emergency in Tianjing, Tsinghua University and

Beijing Jingrui worked together to successfully complete the experimental verification of wastewater containing cyanide by combination of the technology from Tsinghua University and enterprise resources. This cooperation also represented a precious experience for future emergency handling.

The Company faced with increased and fierce market competition. The principal businesses of the Group include cities and towns wastewater treatment and project technical service. The Group will target at regions with pressing urban, river and lake pollution problems. In the second half of 2015, ecological and environmental protection, clean energy and water resource development have been listed amongst 11 key development and investment targets by China’s central government. The Company will cautiously analyse market changes and

MANAGEMENT DISCUSSION AND ANALYSIS

adjust its business strategies accordingly. The Company will also communicate closely with the capital market and maintain amicable public relationship.

Outlook

2016 is the first year of “the 13th Five-Year Plan”, China central government is vigorously advocating the five development concepts of “innovation, harmonisation, greening, openness and sharing”. The launch of these environmental protection policies will bring tremendous development opportunities to environmental protection, water treatment and related industries.

The Company expects China central government has no intention to sharply devalue its currency to promote trade and has confidence to use its vast resources to fight speculation. China central government expects that it can maintain about 6.5% economic growth in 2016.

The Company will conduct a review on the business operations and financial position of the Company for the purpose of formulating business plans and strategies for its future business development, which would enable the

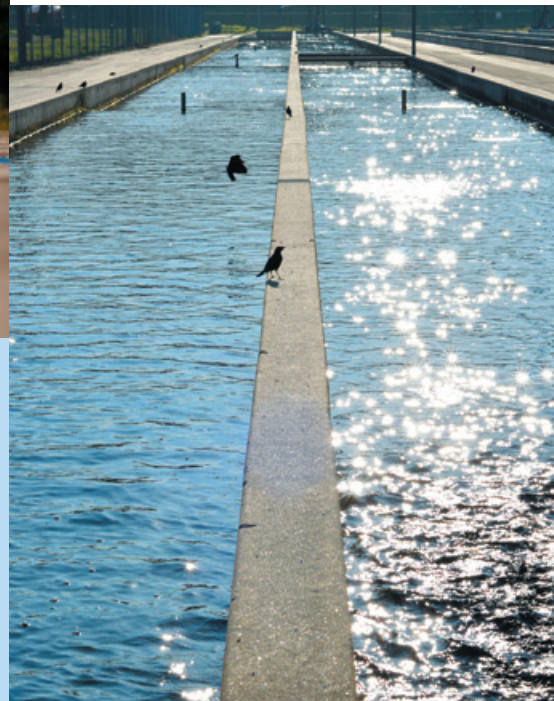
Group to diversify its business and broaden its income sources by exploring other business and investment opportunities.

The Company will take possible opportunities in the financial markets to raise funds to facilitate future merger and acquisition activities and/or to increase the working capital of the Group. The Board and the management of the Company believe that this will be a new page for the Company from now on. 2016 will be a crucial year for pushing through the structural reform.

Liquidity and Financial Resources

Liquidity

The Group continued to maintain a stable financial position. As at 31 December 2015, the total cash and bank balances including restricted and pledged fixed deposits of the Group (including those classified as part of a disposal group held for sale) were HK\$29,440,000 (2014: HK\$25,833,000). The cash and bank balances consisted of about 26% in Hong Kong dollars and 74% in Renminbi.



MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 December 2015, the Group had total assets of HK\$151,106,000 (2014: HK\$384,513,000) and total liabilities of HK\$186,760,000 (2014: HK\$339,169,000). As at 31 December 2015, the current ratio was 0.71 (2014: 1.29), calculated on the basis of current assets of HK\$116,204,000 (2014: HK\$344,824,000) over current liabilities of HK\$164,697,000 (2014: HK\$266,594,000).

The Group's borrowings and finance lease payables (including those classified as part of a disposal group held for sale) amounted to HK\$93,006,000 (2014: HK\$184,356,000). The Group's borrowings and finance lease payables are denominated in Renminbi and Hong Kong dollars, bearing fixed interest rates. The Group's gearing ratio, being the ratio of the total debts to total assets, was 61.6% (2014: 47.9%).

Charge on assets

As at 31 December 2015, the Group's income stream from operating concession right of HK\$Nil (2014: HK\$250,259,000), and bank deposits of HK\$4,284,000 (2014: HK\$6,300,000) was pledged with banks to secure banking facilities granted to the Group.

As at 31 December 2015, the restricted deposit of the Group amounting to HK\$Nil (2014: HK\$9,396,000) was to be used for repayments of trade payables under banker's consent.



BIOGRAPHICAL

DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Xu Zhong Ping, aged 53, is the Chairman and an executive Director of the Company. Mr. Xu is a director of Gentle International Holdings Limited. Mr. Xu has over 20 years' experience in enterprise management, business investment and international economic strategic cooperation. He has been a standing director of the China Council for the Promotion of International Economy and Culture* (中國國際經濟文化促進會) since 1996. Mr. Xu studied statistics and graduated from Nanjing University of Finance & Economics (formerly known as Nanjing Liangshi Economics College*), the PRC in 1986. Mr. Xu joined the Group in 2009.

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

Mr. Pan Yutang, aged 51, is the chief executive officer and an executive Director of the Company. Mr. Pan holds a bachelor's degree in Economics from Nanjing University of Finance & Economics. Mr. Pan worked in China National Export Bases Development Corporation, formerly belonging to the Ministry of Foreign Economic Relations and Trade. He then went on to serve as Financial Manager, Deputy General Manager as well as General Manager of Plymouth Co. Ltd., China Resources (Holdings) Company Limited. In 2002, he worked in East Holding Group, responsible for the project development and Mergers and Acquisitions. He completed many restructuring, merging and back-door listing projects. Mr. Pan currently is the vice chairman of Daisy Companies, member of the Investment Committee of China Daisy Capital, and vice chairman of the Alumni Association of Nanjing University of Finance & Economics. Mr. Pan joined the Group in 2012.

Mr. Zhang Fang Hong, aged 50, is an executive Director of the Company. Mr. Zhang is a director of Gentle International Holdings Limited and Yield Tech International Holdings Limited. Mr. Zhang holds a bachelor's degree in Economics from Nanjing University of Finance & Economics (formerly known as Nanjing Liangshi Economics College*), the PRC, a master's degree in Economics from Zhongnan University of Economics and Law (formerly known as Zhongnan University of Finance and Economics*), the PRC and an executive master's degree in business administration from China Europe International Business School, the PRC. He has served various executive roles in several companies in the PRC and Hong Kong. During the period from 2 October 2007 to 28 December 2007, Mr. Zhang served as an executive director of Great World Company Holdings Limited (formerly known as T S Telecom Technologies Limited), the shares of which are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("the Stock Exchange") (stock code: 8003). Mr. Zhang joined the Group in 2009.

Mr. Xu Xiao Yang, aged 47, is an executive Director of the Company. He has over 10 years of experience in foreign trading, logistics, energy, education and real property businesses. Before joining the Company, he has worked as an executive director of Australian International Investment Group and Australia Queensland Education Investment Group. Mr. Xu graduated from Beijing Foreign Language Institute and was major in English. Mr. Xu joined the Group in 2008.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Non-executive Director

Mr. Cao Guoxian, aged 52, is a non-executive Director of the Company. Mr. Cao has extensive experience in overseas investment and finance. He also has considerable knowledge and operating experience in international investment and financing and capital market. Mr. Cao graduated from the Graduate School of Chinese Academy of Social Sciences in 1998 and has served in the foreign language department of Henan Normal University and Bureau of International Cooperation under the Chinese Academy of Sciences. He has worked as a manager of the oversea business department of Beijing Jingfang Economic Development Corporation, as an assistant to the chairman of Capital Land Ltd. and deputy officer of the office of Beijing Capital Group Co., Ltd. He is currently the deputy general manager of Beijing Capital Co., Ltd and an executive director and chief executive officer of Capital Environment Holdings Limited (formerly known as New Environmental Energy Holdings Limited), the shares of which are listed on the main board of The Stock Exchange of Hong Kong Limited (Stock Code: 3989). Mr. Cao joined the Group in 2014.

Mr. Ma Tianfu, aged 69, is a non-executive Director of the Company. Mr. Ma is a director of Gentle International Holdings Limited and Superform Investment Development Limited; he is also a director and senior engineer of Shanghai Shi Dong Kou Embankment Development Engineering Company Limited (上海石洞口圍堤開發工程有限公司). Mr. Ma graduated from Shanghai University of Electric Power (formerly known as Shanghai Electric Power School) in the PRC and completed a four-year study in thermal engineering automatic system in power plants and has years of experience in the field of electricity power engineering and construction projects. He was awarded a Science and Technology Progress Award of Shanghai in 1993 issued by the Science and Technology Progress Awards Jury of Shanghai Municipality. Mr. Ma was issued with a certificate as a researcher for life of the Enterprises Committee of the Chinese Academy of Management Science in 2002. Mr. Ma joined the Group in 2012.

Independent Non-executive Directors

Mr. Tse Chi Wai, aged 48, is an independent non-executive Director of the Company. He has over 20 years' experience in auditing, accounting and corporate finance. Mr. Tse has been an executive director, financial controller and company secretary of China Information Technology Development Limited, a company listed on the Growth Enterprise Market Board of The Stock Exchange of Hong Kong Limited (stock code: 8178) since 15 August 2011, an independent non-executive director of Sunac China Holdings Limited, a company listed on the Main Board of The Stock Exchange of Hong Kong Limited (stock code: 1918) since 19 December 2012, an independent non-executive director of Great Water Holdings Limited, a company listed on the GEM of the Stock Exchange (Stock code: 8196) since 1 November 2015, an independent non-executive director of Greens Holdings Ltd, a company listed on the Main Board of the Stock Exchange (stock code: 1318) from 15 March 2015 to 19 November 2015. He has also been an executive director of Jih Sun Financial Holding Company Limited, a company listed on the Emerging Stock Board of the Taiwan Stock Exchange Corporation (stock code: 5820) since 19 June 2009. Mr. Tse joined the Group in 2015.

Mr. Tse graduated from the University of Hong Kong in 1989 with a Bachelor of Social Science (Honour) degree. He is a fellow member of the Association of Chartered Certified Accountants in the United Kingdom and a member of the Hong Kong Institute of Certified Public Accountants in Hong Kong.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Professor Zhu Nan Wen, aged 47, is an independent non-executive Director of the Company. He is a member of the Audit Committee, Nomination Committee and Remuneration Committee respectively. Professor Zhu obtained his doctoral degree in Environmental Engineering, Tongji University, the PRC in 2000, a master degree in microbiology, Zhe Jiang University (formerly known as Zhejiang Agriculture University* (浙江農業大學)), the PRC in 1996, and a bachelor degree in crop, Faculty of Agronomy*, Zhe Jiang University, the PRC in 1991. Professor Zhu has been working at Shanghai Jiao Tong University, the PRC since 2000. He has been a professor of School of Environmental Science and Engineering, Shanghai Jiao Tong University, the PRC since August 2005. He was an associate professor and a lecturer in the same school during the period from August 2001 to August 2005 and from March 2000 to July 2001 respectively. Professor Zhu is also the head of the Institute of Solid Waste Treatment and Disposal* (固體廢棄物處理處置技術研究所) at Shanghai Jiao Tong University, the PRC and is appointed as an expert in assessment and planning in selected projects of the Ministry of Science and Technology of the PRC (中華人民共和國科學技術部), Science and Technology Commission of Shanghai Municipality (上海市科學技術委員會), the PRC and Shanghai Chengtou Corporation (上海市城市建設投資開發總公司), the PRC. Professor Zhu has participated in various investment projects in wastewater treatment, environmental microbiology and waste treatment related fields which were registered as invention patents in the PRC. Professor Zhu joined the Group in 2009.

Professor Zuo Jiane, aged 47, is an independent non-executive Director of the Company. He is a member of the Audit Committee, Remuneration Committee and Nomination Committee respectively. Professor Zuo graduated from Tsinghua University with a bachelor degree in Environment Science and Engineering in 1991. In 1995, he obtained a doctorate degree from the Department of Environmental Science and Engineering of Tsinghua University. During 1998 to 1999, he acted as a visiting scholar in the University of Newcastle. Professor Zuo joined the Group in 2011.

Working experiences of Professor Zuo are as follows:

- (i) Lecturer and associate professor of the Department of Environment Science and Engineering of Tsinghua University from 1995 to 2004;
- (ii) Professor of the Department of Environment Science and Engineering of Tsinghua University from 2004 to 2010;
- (iii) The Deputy Head of the Department of Environment Science and Engineering of Tsinghua University in 2010; and
- (iv) The Associate Dean of the Department of Environment Science and Engineering of Tsinghua University since 2011.

Research directions of Professor Zuo are:

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

- (iii) Research of urban wastewater advanced treatment technology;
- (iv) Research of wastewater networks operation management and maintenance;
- (v) Research urban and rural diffused pollution control and management; and
- (vi) Research of assessment on wastewater pollution prevention technology and research of management mechanism on pollution prevention technology, and etc.

Major ongoing research projects of Professor Zuo are as follows:

- (i) State 863 Plan of “Research of highly-utilized technology and equipment of biowaste anaerobic digestion outcome (生物質垃圾厭氧消化產物高值利用技術、裝備研發)”, 2008—2010
- (ii) State 863 Plan of “Key treatments, equipment research and demonstration of highsolids anaerobic digestion (高固體厭氧消化關鍵工藝、裝備研發與工程示範)”, 2008—2010
- (iii) State 863 Plan of “New filtering equipments for wastewater advanced treatment research and application (污水深度處理新型過濾設備的研製與應用)”, 2009—2012
- (iv) State 863 Plan of “High-rate anaerobic digestion technology study and demonstration for wastewater sludge (城市污泥分級分相厭氧消化組合技術研發及工程示範)”, 2009—2012
- (v) National Technology Support Project, “Research and demonstration of scaled biogas engineering mechatronics equipment and control technology (規模化沼氣工程機電一體化裝備及控制技術研究與工程示範)”, 2008—2010
- (vi) National Technology Support Project, “Research and demonstration of new treatment technology of solid biogas fermentation (固體物料兩相沼氣發酵新工藝技術研究與工程示範)”, 2008—2010
- (vii) National Science and Technology Major Project, “Technology and demonstration of rapid urbanization new-zone water environment comprehensive protection (快速城市化新區水環境綜合保護技術與示範)”, 2008—2010
- (viii) National Science and Technology Major Project, “Research and technology city cluster in the area around the Taihu Lake environment comprehensive management technology (環太湖城市群水環境綜合管理技術集成研究與綜合示範)”, 2008—2010
- (ix) National Science and Technology Major Project, “Pharmaceutical industry water pollution protection technology assessment and selection (製藥行業水污染防治技術評估與篩選)”, 2009—2011
- (x) National Science and Technology Major Project, “Indicative mechanism study of pharmaceutical industry water pollution protection technology assessment (製藥行業水污染防治技術評估指標體系研究)”, 2009—2011

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Technology awards of Professor Zuo include:

- (i) Second Class Prize for Beijing Science and Technology Progress, Development of UASB reaction equipment and its auxiliary products (反應器設備化及其配套產品開發), 2001
- (ii) Second Class Prize of Environmental Protection Science Technology of State Environmental Protection Administration (國家環境保護總局環境保護科學技術獎二等獎), Research and application of effective anaerobic reactor, 2006
- (iii) Third Class Prize of Environmental Protection Science Technology of State Environmental Protection Administration (國家環境保護總局環境保護科學技術獎三等獎), Research & development of effective unit treatment equipment (高效單元處理設備的研製和開發), 2003
- (iv) Teaching Achievement Special Prize of Tsinghua University (清華大學教學成果獎特等獎), Theory and practice of organic combination of water treatment engineering establishment (理論與實踐有機融合的水處理工程課程建設), 2010
- (v) Second Class Prize of Science Research Outstanding Results Award (Science and Technology Advancement Award) of higher education of Ministry of Education (教育部高等學校科學研究優秀成果獎(科技進步獎)二等獎), research & application of sustainable wastewater treatment mainly by anaerobic technology (以厭氧技術為核心的可持續廢水處理系統研究與應用), 2010

Publications of Professor Zuo include:

- (i) Theory and Practice of UASB Treatment (UASB 工藝的理論與工程實踐) by Wang Kaijun and Zuo Jiane, etc., China Environmental Science Press, Beijing, 2000
- (ii) Theory and Practice of Wastewater Anaerobic Bio-treatment (廢水厭氧生物處理理論與技術) by Hu Jicui, Zhou Mengjin, Zui Jiane, etc., China Architecture & Building Press, Beijing, 2003
- (iii) Jiane Zuo, Lili Gan, Water and Sanitation Services (Chapter 19), Earthscan, London, 2009

Other academic positions held by Professor Zuo include:

- (i) Standing Member of The seventh Committee of China Biogas Society
- (ii) Member of the International Water Association (IWA)

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

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Prof. Li Jun, aged 51, is an independent non-executive Director of the Company since 6 April 2016. He is a professor and PhD student tutor in Beijing University of Technology, Registered Environmental Protection Engineer, Visiting Professor of The University of Tokyo, director of Research Institute of Municipal Engineering and Supervisor of Sewage and Sludge Treatment and Recycling Technology Research Laboratory in Beijing University of Technology. Prof. Li graduated from the School of Municipal and Environment Engineering, Harbin Institute of Technology with a Bachelor Degree in Water Supply and Drainage, a Master Degree in Environmental Engineering and a Doctorate Degree in Environmental Engineering. From 1996 to 1999, he worked as a post-doctorate researcher in Chiba University of Japan, and a researcher in The University of Tokyo, Japan from 2006 to 2007. He is currently the director of China Water Industry Association CCES, Deputy Secretary General and Member of the Committee of Environmental Engineering of Chinese Society of Environmental Sciences, Member of the Drainage Committee of CCES, Member of the Water Supply Committee of CCES, expert of Water Pollution Control Committee of China Association of Environmental Protection Industry, associate editor for “Water Pollution Control Engineering” of Encyclopedia of Chinese Environment, editor for China Water & Wastewater, Water & Wastewater Asia and Asia Environmental Protection, evaluation expert of The State Science and Technology Awards, National Natural Science Foundation of China, National 863 Program and National Science & Technology Pillar Program of China, financial evaluation expert of Ministry of Finance, evaluation expert of Central Financial Special Fund and Beijing Municipal Science & Technology Commission, Beijing evaluation expert, vice-chairman for evaluating the professional titles for water affair in Beijing, senior expert for evaluating the professional titles for engineering and technology series in Beijing, technical expert for ecological residential project of China Environmental Certification Center of MEP, editor for Environmental Publishing Center of Chemical Industry Press in China and consulting expert for H2O China (中國水網). He was awarded as Beijing Nova in Science in 2000, young and middle-aged backbone teacher in Beijing in 2006 and was elected as the Leading Entrepreneurial High-Tech Talent in 2014 (321 Strategy). He was awarded one First-Class, two Second-Class and one Third-Class Ministry-level Progress Prize in Scientific and Collective Technology awarded one Second-Class Prize in Ministry-level Outstanding Book, one First-Class Progress Prize in Provincial Science and Technology for Environmental Protection, two First-Class Progress Prizes in Science and Technology for Beijing Hydraulic Engineering Society. He was the chief editor (translator) of 5 monographs, participated in drafting 2 National Standards, 5 monographs and teaching materials and obtained 12 patents. He published over 200 papers on international and domestic journals and conferences like Water Research, Water Science & Technology, Biochemical Engineering Journal, Process Biochemistry, Journal of Residuals Science & Technology, RSC advances, Desalination and Water Treatment, China Environmental Science, ACTA Scientiae Circumstantiae, CIESC Journal, China Water & Wastewater, Environmental Science, Modern Chemical Industry, Water & Wastewater Engineering, Journal of Harbin University of Civil Engineering and Architecture, Acta Energetica Sinica, Environmental Engineering, Journal of Harbin Institute of Technology, Techniques and Equipment for Environmental Pollution Control, over 70 of which were recorded by SCI and EI.

Prof. Li Jun has been engaged in the research for sewage treatment technology for many years. He is the member of the evaluation panel of the point source control project of the capital water resources sustainable development strategies in the 21st century, national water treatment major project, acceptance of national water treatment major project, supervisor of national water treatment major project, National 863 Program, national science and technology support project etc.. He successively completed over 40 national and provincial subjects research, in which includes over 30 national and provincial subjects and international cooperation programs, such as the “Technology and Mechanism Research of Reduction Reactor of Residual Sludge Base on Environmental Impact of the Separation and Multiple Redox Reaction” (50678008) “Biodegraded Characteristic and Mechanism Research of Estrogenic Hormone in the Process of Denitrification and Dephosphorization of sewage treatment” (51078008), “Production and Process Control of N₂O in the Process of Biological Denitrification of Different Sewage” (50478040) under the National Natural Science Foundation Project; the sub-topic of the “Key Technology Research and Integrated Demonstration of Urban Recycle Water Quality Improvement in Beijing” (2008ZX07314-008), the sub-topic research of the “Technology Integration and Engineering Demonstration of Quality-based Utilization of Recycle Water and Water Environment Control in Beijing” (2008ZX07314-

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

009), the sub-topic of the “Key Technology Research and Integrated Demonstration of Upgrading and Reconstruction of Urban Sewage Treatment Plant subject to High Emission Standard” (2008ZX07317-02) under the national water pollution control and management of science and technology major projects; the “Technology Research of Effective Advanced Treatment and Reuse of Sewage” (2003AA601010), the “Technology Research of SBR (Sequencing Batch Reactor) Denitrification and Dephosphorization of Urban Sewage” (2004AA601020) under the sub-topic of the National 863 Program; the “Technology Research of New Sewage Treatment Reactor” under the project of Ministry of Education; “Synchronization of Denitrification and Dephosphorization Technology base on the Submerged Biofilm Process” under the project of Ministry of Construction and the sub-topic of the National 973 Program, the National Scientific Key Project of the Ninth Five-Year Plan, the National Scientific Key Project of the Eighth Five-Year Plan, the Scientific Key Project of the Eighth Five-Year Plan of Heilongjiang Province and Sino-Japanese cooperation projects.

Awards Received

- (1) “Key technology and application on urban sewage treatment process control” was granted the First-Class Prize for advancement in science and technology awarded by Ministry of Education in 2011;
- (2) “Submerged biofilm method of denitrification and dephosphorization technology research” was granted the Second-Class Prize for advancement in science and technology awarded by Ministry of Construction in 1997;
- (3) “Flexible microporous membrane aeration technology” was granted the Third-Class Prize for advancement in science and technology of Heilongjiang Province and the First Class Prize for advancement in environmental science and technology of Heilongjiang Province in 1996;
- (4) “Simple and efficient composite biological treatment technology” was granted the Second-Class Prize for advancement in science and technology of Heilongjiang Province in 2002;
- (5) Microorganisms and Water Treatment Engineering was granted the Second-Class Prize for excellent books on science and technology awarded by Oil and Chemical Industry Association in 2004 (ministry level);
- (6) “Energy-efficient and geomagnetism conservation technology research and demonstration project on water pollution control” was granted the First-Class Prize for advancement in science and technology awarded by Beijing Hydraulic Engineering Society in 2013; and
- (7) “Utilization of recycled water molecules and water environmental control technology integration and demonstration project in Beijing” was granted the First-Class Prize for advancement in science and technology awarded by Beijing Hydraulic Engineering Society in 2014.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Complete Sets of Technology and Equipment Developed (which have obtained 24 patents):

- (1) Complete set of technology and equipment on emergent water pollution control with magnetic technology as its core;
- (2) Complete set of technology and equipment on low-energy rural sewage treatment;
- (3) Complete set of technology on landscape water treatment and water quality protection;
- (4) Complete set of technology on the upgrading and reconstruction of urban sewage treatment plants;
- (5) Complete set of technology and equipment on heavy metal contamination removal;
- (6) Complete set of technology on landfill leachate treatment;
- (7) Complete set of technology and equipment on exact aeration ;
- (8) Complete set of technology on sludge reduction;
- (9) Complete set of technology and equipment on the advanced oxidation of refractory wastewater;
- (10) Complete set of technology on autotrophic and heterotrophic denitrification coupling;
- (11) Complete set of technology on wastewater treatment with immobilized embedding of microorganisms as its core;
- (12) Wastewater pretreatment technology and equipment with multi-functional belt type filters as its core; and
- (13) Complete set of technology and equipment on black and odorous water control.

Company Secretary

Mr. Tang Yau Sing (“Mr. Tang”), is the company secretary and authorized representative of the Company. Mr. Tang has over 20 years’ experience in business consulting, accounting and corporate finance. Mr. Tang has been the founder and director of GCA Advisors Limited since June 2011 and has been the chief financial officer of New Sports Group Limited, a company listed on the Main Board of The Stock Exchange of Hong Kong Limited (stock code: 0299) since 15 November 2013 and has become the executive director of New Sports Group Limited since 17 December 2014. Mr. Tang has become the executive director and authorized representative of Greens Holdings Ltd, a company listed on the Main Board of The Stock Exchange of Hong Kong Limited (stock code: 1318) from 30 December 2014 to 19 November 2015. Mr. Tang has been the independent director and chairman of audit committee of China North East Petroleum Holdings Limited (previously listed on New York Stock Exchange) since August 2010. Mr. Tang was the chief financial officer and controller of China Agritech, Inc. (previously listed on NASDAQ) for the period from October 2008 to January 2012. Mr. Tang received his Bachelor of Social Science (Honour) degree from the University of Hong Kong in 1986. He is a fellow member of the Association of Chartered Certified Accountants in the United Kingdom and the Hong Kong Institute of Certified Public Accountants in Hong Kong. He is also a member of the Institute of Chartered Accountants in England and Wales, the Taxation Institute of Hong Kong and the Hong Kong Institute of Directors.

* the unofficial English translation or translation for identification purpose only

CORPORATE GOVERNANCE REPORT

The Board is pleased to present this corporate governance report in the Group's annual report for the year ended 31 December 2015.

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

Corporate Governance Practices

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

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

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

Throughout the year ended 31 December 2015, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules, save for the following deviation from the code provisions:

Code provision A.4.1 of the CG Code stipulates that non-executive Directors should be appointed for a specific term, subject to re-election. There is no service contract between the Company and Mr. Cao Guoxian and Mr. Ma Tianfu, the non-executive Director, Mr. Tse Chi Wai, Prof. Zhu Nan Wen and Prof. Zuo Jiane, the independent non-executive Directors. They were not appointed for any specific length of service with the Company.

Code provision E.1.2 stipulates that the Chairman should attend the annual general meeting. Mr. Xu Zhong Ping, the Chairman of the Board, was unable to attend the 2015 annual general meeting due to business engagement, but Mr. Xu Xiao Yang, an executive Director, has been delegated to attend and answer questions on his behalf at the 2015 annual general meeting.

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

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

CORPORATE GOVERNANCE REPORT

The Board

Responsibilities

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

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

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

Board Composition

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

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

Executive Directors:

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

Non-Executive Directors:

Mr. Cao Guoxian
Mr. Ma Tianfu

Independent Non-Executive Directors:

Mr. Tse Chi Wai (appointed on 27 May 2015)
Mr. Xin Luo Lin (retired on 27 May 2015)
Prof. Zhu Nan Wen
Prof. Zuo Jiane

CORPORATE GOVERNANCE REPORT

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

Members of the Board are unrelated to one another.

During the year ended 31 December 2015, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise.

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

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

Appointment, Re-election and Removal of Directors

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

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

There is no service contract between the Company and Mr. Cao Guoxian and Mr. Ma Tianfu, the non-executive Directors, and Mr. Tse Chi Wai, Prof. Zhu Nan Wen and Prof. Zuo Jiame, the independent non-executive Directors. They were not appointed for any specific length of service with the Company.

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

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

CORPORATE GOVERNANCE REPORT

Nomination Committee

Board Diversity Policy

Purpose

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

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

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

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

Measurable Objectives

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

Monitoring and Reporting

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

Review of this Policy

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

Reporting Procedures

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

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

As at 31 December 2015, the Nomination Committee comprised four members, namely Mr. Xu Zhong Ping (Chairman), Mr. Tse Chi Wai, Prof. Zhu Nan Wen and Prof. Zuo Jiane.

CORPORATE GOVERNANCE REPORT

The principal duties of the Nomination Committee include:

- (a) to review the structure, size and composition of the Board on a regular basis and make recommendations to the Board regarding any proposed changes;
- (b) to develop and formulate relevant procedures for nomination and appointment of Directors;
- (c) to identify individuals suitably qualified to become a Board member;
- (d) to make recommendations to the Board on selection or appointment of individuals nominated for directorships and appointment or re-appointment of Directors and succession planning for Directors; and
- (e) to assess the independence of the independent non-executive Directors.

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

The Nomination Committee recommended the re-appointment of the Directors standing for re-election at the annual general meeting of the Company to be held on 20 May 2016.

A circular containing detailed information of the Directors standing for re-election at the annual general meeting to be held on 20 May 2016 shall be sent to the shareholders on or about 20 April 2016.

Induction and Continuing Development for Directors

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

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

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

During the year of 2015, materials covering the updates of the Listing Rules, especially concerning the corporate governance and internal control have been given for Directors' review and study.

CORPORATE GOVERNANCE REPORT

Remuneration Committee

As at 31 December 2015, the Remuneration Committee comprised three members, namely Mr. Tse Chi Wai (Chairman), Prof. Zhu Nan Wen and Prof. Zuo Jiane, all of them are independent non-executive Directors. The primary objectives of the Remuneration Committee include:

- (a) to make recommendations on the establishment of procedures for developing remuneration policy and structure of the executive Directors and the senior management, such policy shall ensure that no Director or any of his associates will participate in deciding his own remuneration;
- (b) to make recommendations on the remuneration packages of the executive Directors and the senior management;
- (c) to review and approve the remuneration packages of the executive Directors and the senior management by reference to the performance of the individual and the Company as well as market practice and conditions; and
- (d) to review and approve the compensation arrangements for the executive Directors and the senior management.

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

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

Accountability and Audit

Directors' Responsibilities for Financial Reporting in Respect of Financial Statements

The Directors acknowledge their responsibility for preparing the consolidated financial statements of the Company for the year ended 31 December 2015.

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

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

CORPORATE GOVERNANCE REPORT

Internal Controls

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

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

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

Audit Committee

As at 31 December 2015, the Audit Committee comprised three members, namely Mr. Tse Chi Wai (Chairman), Prof. Zhu Nan Wen and Prof. Zuo Jiane, all of them are independent non-executive Directors (including one independent non-executive Director who possesses the appropriate professional qualifications or accounting or related financial management expertise). None of the members of the Audit Committee is a former partner of the Company's existing external auditor.

The main duties of the Audit Committee include the following:

- (a) to review the financial statements and reports and consider any significant or unusual items raised by staff responsible for the accounting and financial reporting function or external auditor before submission to the Board;
- (b) to review the relationship with the external auditor by reference to the work performed by the auditor, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditor;
- (c) to review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures; and
- (d) to monitor the corporate governance of the Group including compliance with statutory and Listing Rules requirement.

During the year under review, the Audit Committee reviewed the Group's annual results and annual report for the year ended 31 December 2014; and the interim results for the period ended 30 June 2015, the financial reporting and compliance procedures, risk management review and processes and the re-appointment of the external auditor.

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

The Audit Committee held two meetings during the year ended 31 December 2015 and the attendance records are set out under "Directors' Attendance Records" on page 26.

CORPORATE GOVERNANCE REPORT

External Auditor and Auditor's Remuneration

The statement of the external auditor of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" on pages 38 to 39.

During the year ended 31 December 2015, the remuneration paid to the Company's auditor, RSM Hong Kong is set out below:

Category of services	Fee paid/payable
Audit service	HK\$980,000
Non audit services	HK\$Nil
<hr/>	
Total	HK\$980,000

Company Secretary

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

Board Meetings***Board Practices and Conduct of Meetings***

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

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

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

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

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

CORPORATE GOVERNANCE REPORT

Directors' Attendance Records

During the year ended 31 December 2015, two regular Board meetings were held for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

Code provision A.1.1 stipulates that regular Board meetings should be held at least four times a year at approximately quarterly intervals. There were six Board meetings held during the year under review, two of which was regular meeting held for approving the final results for the year ended 31 December 2014 and interim results for the period ended 30 June 2015. The other Board meetings were held as and when the business and operational needs arose.

The attendance records of each Director at the meetings of shareholders, the Board, Audit Committee, Remuneration Committee and Nomination Committee during the year ended 31 December 2015 are set out below:

Name of Directors	General Meeting	Attendance/Number of Meetings			
		Board	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors:					
Mr. Xu Zhong Ping	0/2	6/6	–	–	–
Mr. Pan Yutang	0/2	6/6	–	–	–
Mr. Zhang Fang Hong	1/2	6/6	–	–	–
Mr. Xu Xiao Yang	1/2	6/6	–	–	–
Non-Executive Directors:					
Mr. Cao Guoxian	0/2	5/6	–	–	–
Mr. Ma Tianfu	0/2	5/6	–	–	–
Independent Non-Executive Directors:					
Mr. Xin Luo Lin (retired on 27 May 2015)	0/2	4/6	1/2	1/1	1/1
Mr. Tse Chi Wai (appointed on 27 May 2015)	1/2	2/6	1/2	–	–
Pro. Zhu Nan Wen	0/2	4/6	2/2	1/1	1/1
Pro. Zuo Jiane	0/2	5/6	2/2	1/1	1/1

CORPORATE GOVERNANCE REPORT

Model Code for Securities Transactions

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

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2015.

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

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

Delegation by the Board

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

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

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

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

Remuneration of Directors and Senior Management

The Company has established a formal and transparent procedure for formulating policies on remuneration of senior management of the Group. Details of the remuneration of each of the Directors for the year ended 31 December 2015 are set out in note 16 to the financial statements.

CORPORATE GOVERNANCE REPORT

Communications with Shareholders and Investors

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

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

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

Code provision E.1.2 stipulates that the Chairman should attend the annual general meeting. Mr. Xu Zhong Ping, the Chairman of the Board, was unable to attend the 2015 annual general meeting due to business engagement, but Mr. Xu Xiao Yang, an executive Director, has been delegated to attend and answer questions on his behalf at the 2015 annual general meeting.

Shareholders' Rights

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

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

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

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

CORPORATE GOVERNANCE REPORT

Procedures for Shareholders to Propose Convening Extraordinary General Meetings

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

Procedures for Shareholders to Propose a Person for Election as a Director

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

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

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

REPORT OF THE DIRECTORS

The Directors submit herewith their annual report together with the audited financial statements for the year ended 31 December 2015.

Principal Activities and Geographical Analysis of Operations

The principal activity of the Company is investment holding. The Group's principal business are trading of machinery and equipment, environmental protection technology, equipment system integration, cities and towns wastewater treatment and project technical service. The details activities and other particulars of the subsidiaries are set out in note 44 to the financial statements.

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

An analysis of the Group's performance for the year by operating segment is set out in note 11 to the consolidated financial statements.

Major Customers and Suppliers

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

	Percentage of the Group's total	
	Sales	Purchases
The largest customer	28%	
Five largest customers in aggregate	93%	
The largest supplier		28%
Five largest suppliers in aggregate		45%

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

Results and Appropriations

The results of the Group for the year ended 31 December 2015 are set out in the consolidated statement of profit or loss and consolidated statement of profit or loss and other comprehensive income on pages 40 to 41.

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

Transfer to Reserves

Loss attributable to owners of the Company, before dividends, of HK\$74,117,000 (2014: HK\$75,307,000) have been transferred to reserves. Other movements in reserves of the Company are set out in note 37 to the consolidated financial statements.

At 31 December 2015, none of distribution reserves are available to owners of the Company.

REPORT OF THE DIRECTORS

Property, Plant and Equipment

Details of movements in property, plant and equipment of the Group during the year are set out in note 19 to the financial statements.

Properties

Particulars of the major properties and property interest of the Group are shown on page 117 of the annual report.

Directors

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

Executive Directors

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

Non-Executive Directors

Mr. Cao Guoxian
Mr. Ma Tianfu

Independent Non-Executive Directors

Mr. Tse Chi Wai (*appointed on 27 May 2015*)
Mr. Xin Luo Lin (*retired on 27 May 2015*)
Prof. Zhu Nan Wen
Prof. Zuo Jiane

Mr. Tse Chi Wai will retire from the office as an independent non-executive Director at the forthcoming annual general meeting of the Company in accordance with Article 111 of the Articles of Association of the Company. Mr. Xu Xiao Yang and Mr. Pan Yutang will retire from the office as executive Director at the forthcoming annual general meeting of the Company in accordance with Article 108(A) of the Articles of Association of the Company. Mr. Ma Tianfu will retire from the office as a non-executive Director at the forthcoming annual general meeting of the Company in accordance with the Article 108(A) of the Articles of Association of the Company. Mr. Zhu Nan Wen will retire from the office as an independent non-executive Director at the forthcoming annual general meeting of the Company in accordance with the Article 108(A) of the Articles of Association of the Company. All retiring Directors, being eligible will offer themselves for re-election.

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

Directors' Service Contracts

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

REPORT OF THE DIRECTORS

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

The Directors and chief executive who held office at 31 December 2015 had the following interests in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) at that date as recorded in the register of Directors' and chief executives' interests required to be kept under section 352 of the SFO, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in the Listing Rules (the "Model Code"), to be notified to the Company and the Stock Exchange were as follows:

Long position

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

Note:

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

Apart from the foregoing, as at 31 December 2015, none of the Directors, the chief executive or any of their spouses or children under eighteen years of age has interests in the shares, underlying shares and debentures of the Company, or any of its associated corporations, as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company or its subsidiaries were entered into or existed during the year.

REPORT OF THE DIRECTORS

Share Options

2002 Share Option Scheme

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

2010 Share Option Scheme

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

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

The number of securities issued and to be issued upon exercise of the options granted to each participant in any 12-month period is limited to 1% of the Company's ordinary shares in issue.

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

As at 1 January 2015, there were no outstanding share options, and no share options were granted by the Company under the 2010 Shares Option Scheme up to 31 December 2015.

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

Equity Linked Agreements

Save as disclosed above in the section headed "Share Options", no equity-linked agreements were entered into by the Group, or existed during the year ended 31 December 2015.

REPORT OF THE DIRECTORS

Substantial Shareholders' Interests in Shares

As at 31 December 2015, the following persons, other than a Director or chief executive of the Company, had interest or short positions in the shares and underlying shares in the Company as recorded in the register required to be kept under section 336 of the SFO:

	Capacity	No. of ordinary shares of the Company interested	% of the Company's issued shares capital
Gentle International Holdings Limited ("Gentle")	Beneficial owner	1,200,000,000	47.99
Classy Jade Limited	Interest of a controlled corporation (Note)	1,200,000,000	47.99
Mr. Xu Zhong Ping	Interest of a controlled corporation (Note)	1,200,000,000	47.99

Note:

Classy Jade Limited owns 60% of the issued share capital of Gentle. Mr. Xu Zhong Ping is the sole shareholder of Classy Jade Limited and was therefore deemed to be interested in the said 1,200,000,000 shares held by Gentle under Part XV of the SFO.

Save as disclosed above, as at 31 December 2015, so far as is known to the Directors, no person (other than the Directors whose interests are set out in the section headed "Directors' and Chief Executive's Interests in Shares and Underlying Shares" above) had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

Directors' Interests in Contracts of Significance

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

Directors Interests in Competing Business

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

Shares Issued During the Year

Details of the movements in share capital of the Company during the year are set out in note 36 to the financial statements.

Debentures Issued During the Year

Reference is made to the announcement of the Company dated 21 September 2015. Terms used hereinafter shall have the same meaning as defined in the above announcement.

REPORT OF THE DIRECTORS

Emolument Policy

As at 31 December 2015, the Group had 110 employees (2014: 196 employees). The remuneration policy and packages are reviewed annually by the management and the Remuneration Committee. The Group remunerates its employees based on their performance, work experience and the prevailing market rate. The remuneration packages include basic salary, double pay, commission, insurance and mandatory provident fund. The Group operates a share option scheme for the purpose of providing incentives and rewards to (among others) eligible Directors and employees of the Group to recognise their contribution to the result of the Group.

Purchase, Sale or Redemption of Shares

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the years ended 31 December 2015 and 2014.

Pre-emptive Rights

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

Bank Loans and Overdrafts

Particulars of bank loans and other borrowings of the Company and the Group as at 31 December 2015 are set out in note 32 to the financial statements.

Contingent Liabilities

As at 31 December 2015, the Company has no any contingent liabilities.

Five Year Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 118 of the annual report.

Compliance with the relevant Laws and Regulations

As far as the Board of Directors and management are aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. During the year, there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

Environmental Policies and Performance

The Group is committed to the long term sustainability of the environment and communities in which it operates. Acting in an environmentally responsible manner, the Group endeavours to comply with the laws and regulations regarding environmental protection and adopt effective measures to achieve efficient use of resources, energy saving and wates reduction.

Retirement Schemes

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

REPORT OF THE DIRECTORS

The MPF Scheme is a defined contribution retirement scheme. Under the MPF Scheme, the employer and its employees are each required to make contributions to the MPF Scheme at 5% of the employee's relevant income, subject to a cap of monthly relevant income of HK\$30,000.

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

Permitted Indemnity Provision

The Company has arranged for appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities. The permitted indemnity provision is currently in force and was in force for the benefit of the Directors throughout the year.

The Company has taken out and maintained Directors' and officers' liability insurance throughout the year, which provides appropriate cover for certain legal actions brought against its Directors and officers.

Events After the Reporting Period

Reference is made to the announcement of the Company dated 29 March 2016. Terms used hereinafter have the same meaning as defined in the above announcement.

Business Review

Overview

The business review of the Group as at 31 December 2015 is set out under the section headed "Chairman's Statement" and "Management Discussion and Analysis" of this annual report on pages 4 to 9.

Principal Risks and Uncertainties

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

Market Risk

Market risk is the risk that deteriorates profitability or affects ability to meet business objectives arising from the movement in market prices. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Liquidity Risk

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

REPORT OF THE DIRECTORS

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Responsibility for managing operational risks basically rests with every function at divisional and departmental levels.

Key functions in the Group are guided by their standard operating procedures, limits of authority and reporting framework. The management will identify and assess key operational exposures regularly so that appropriate risk response can be taken.

Confirmation of Independence

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

Sufficiency of Public Float

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

Auditor

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

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

Crowe Horwath resigned as auditors of the Company with effect from 15 August 2014 and RSM Nelson Wheeler was appointed as auditors of the Company on 27 August 2014 to fill the vacancy following the resignation of Crowe Horwath.

At the Company's last Annual General Meeting, RSM Nelson Wheeler was re-appointed as auditor of the Company. On 26 October 2015 our auditor changed the name under which it practices to RSM Hong Kong ("RSM") and accordingly has signed its report under its new name.

The consolidated financial statements of the Group for the year ended 31 December 2015 have been audited by RSM who will retire and being eligible, offer themselves for re-appointment. A resolution for the re-appointment of RSM as auditor of the Company is to be proposed at the forthcoming general meeting.

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

By order of the Board

Mr. Xu Zhong Ping

Chairman

Hong Kong, 31 March 2016

INDEPENDENT AUDITOR'S REPORT



29th Floor
Lee Garden Two
28 Yun Ping Road
Causeway Bay
Hong Kong

TO THE SHAREHOLDERS OF CHINA ENVIRONMENTAL TECHNOLOGY HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Environmental Technology Holdings Limited (“the Company”) and its subsidiaries (together “the Group”) set out on pages 40 to 116, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors’ responsibility for the consolidated financial statements

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

Auditor’s responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

INDEPENDENT AUDITOR'S REPORT

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2015, and of the Group's financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Emphasis of matters

Without qualifying our opinion, we draw attention to note 2 to the consolidated financial statements which indicates that the Group incurred a loss for the year of HK\$74,854,000 and had net cash outflows from operating activities of HK\$3,303,000 for the year ended 31 December 2015. As at 31 December 2015, the Group had net current liabilities and net liabilities of HK\$48,493,000 and HK\$35,654,000 respectively. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

RSM Hong Kong

Certified Public Accountants

Hong Kong,

31 March 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2015

	<i>Note</i>	2015 HK\$'000	2014 HK\$'000
CONTINUING OPERATIONS			
Revenue	8	61,999	89,319
Cost of sales		(41,702)	(66,545)
Gross profit		20,297	22,774
Other income	9	945	323
Other losses, net	10	(20,401)	(1,881)
Distribution costs		(1,083)	(3,300)
Administrative expenses		(60,852)	(63,400)
Loss from operations		(61,094)	(45,484)
Finance costs	12	(9,104)	(8,588)
Loss before tax		(70,198)	(54,072)
Income tax (expense)/credit	13	(687)	92
Loss for the year from continuing operations	14	(70,885)	(53,980)
DISCONTINUED OPERATIONS			
Loss for the year from discontinued operations	15	(3,969)	(22,486)
Loss for the year		(74,854)	(76,466)
Attributable to:			
Owners of the Company			
– Loss from continuing operations		(70,148)	(52,821)
– Loss from discontinued operations	15(a)	(3,969)	(22,486)
		(74,117)	(75,307)
Non-controlling interests			
– Loss from continuing operations		(737)	(1,159)
		(74,854)	(76,466)
Loss per share	18		
From continuing and discontinued operations			
– Basic		(HK2.96) cents	(HK3.01) cents
– Diluted		(HK2.96) cents	(HK3.01) cents
From continuing operations			
– Basic		(HK2.80) cents	(HK2.11) cents
– Diluted		(HK2.80) cents	(HK2.11) cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2015

	2015 HK\$'000	2014 HK\$'000
Loss for the year	(74,854)	(76,466)
Other comprehensive income:		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translation of financial statements of foreign operations	1,638	(6,847)
Exchange differences reclassified to profit or loss on disposal of subsidiaries	(7,341)	–
	(5,703)	(6,847)
<i>Item that will not be reclassified to profit or loss:</i>		
Revaluation (deficit)/surplus on leasehold land and buildings	(521)	898
Income tax relating to revaluation (deficit)/surplus	193	(748)
	(328)	150
Other comprehensive income for the year, net of tax	(6,031)	(6,697)
Total comprehensive income for the year	(80,885)	(83,163)
Attributable to:		
Owners of the Company	(80,231)	(82,007)
Non-controlling interests	(654)	(1,156)
	(80,885)	(83,163)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2015

	<i>Note</i>	2015 HK\$'000	2014 HK\$'000
Non-current assets			
Property, plant and equipment	19	29,001	31,517
Operating concessions	20	–	–
Intangible assets	21	5,901	8,172
Goodwill	22	–	–
Interest in an associate	23	–	–
Interests in joint ventures	24	–	–
		34,902	39,689
Current assets			
Inventories	25	6,043	6,727
Gross amount due from customers for contract work	26	11,754	9,639
Trade and other receivables	27	68,868	47,215
Financial assets at fair value through profit or loss	28	99	140
Restricted and pledged bank deposits	29	4,284	16,326
Cash and cash equivalents	29	25,156	7,879
		116,204	87,926
Assets classified as held for sale	<i>30</i>	–	256,898
		116,204	344,824
Current liabilities			
Trade and other payables	31	76,787	109,276
Current tax liabilities		13,639	703
Borrowings	32	70,210	12,726
Deferred revenue	33	565	599
Finance lease payables	34	3,496	3,430
		164,697	126,734
Liabilities directly associated with assets classified as held for sale	<i>30</i>	–	139,860
		164,697	266,594
Net current (liabilities)/assets		(48,493)	78,230
Total assets less current liabilities		(13,591)	117,919

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2015

	<i>Note</i>	2015 HK\$'000	2014 HK\$'000
Non-current liabilities			
Borrowings	32	17,450	63,000
Deferred revenue	33	236	848
Finance lease payables	34	1,850	5,660
Deferred tax liabilities	35	2,527	3,067
		22,063	72,575
NET (LIABILITIES)/ASSETS		(35,654)	45,344
Capital and reserves			
Share capital	36	62,508	62,508
Reserves		(96,352)	(16,121)
Equity attributable to owners of the Company		(33,844)	46,387
Non-controlling interests		(1,810)	(1,043)
(CAPITAL DEFICIENCY)/TOTAL EQUITY		(35,654)	45,344

Approved and authorised for issue by the board of Directors on 31 March 2016 and are signed on its behalf by:

Mr. Xu Zhong Ping
Director

Mr. Pan Yutang
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

Note	Attributable to owners of the Company									Non-controlling interests HK\$'000	Total equity HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Share option reserve HK\$'000	Contributed surplus HK\$'000	Exchange reserve HK\$'000	Property revaluation reserve HK\$'000	Other reserves HK\$'000	Accumulated losses HK\$'000	Total HK\$'000		
At 1 January 2014	62,508	162,813	18,508	(180)	16,159	4,527	10,348	(149,537)	125,146	(197)	124,949
Loss for the year	-	-	-	-	-	-	-	(75,307)	(75,307)	(1,159)	(76,466)
Other comprehensive income:											
Exchange difference on translation of financial statements of foreign operations	-	-	-	-	(6,850)	-	-	-	(6,850)	3	(6,847)
Revaluation surplus, net of tax	-	-	-	-	-	150	-	-	150	-	150
Total other comprehensive income, net of tax	-	-	-	-	(6,850)	150	-	-	(6,700)	3	(6,697)
Transfer upon cancellation of share options	-	-	(18,508)	-	-	-	-	18,508	-	-	-
Disposal of non-controlling interests	-	-	-	-	-	-	-	3,248	3,248	(1,434)	1,814
Capital injection from non-controlling interests	-	-	-	-	-	-	-	-	-	1,744	1,744
At 31 December 2014	62,508	162,813	-	(180)	9,309	4,677	10,348	(203,088)	46,387	(1,043)	45,344
At 1 January 2015	62,508	162,813	-	(180)	9,309	4,677	10,348	(203,088)	46,387	(1,043)	45,344
Loss for the year	-	-	-	-	-	-	-	(74,117)	(74,117)	(737)	(74,854)
Other comprehensive income:											
Exchange difference on translation of financial statements of foreign operations	-	-	-	-	(5,786)	-	-	-	(5,786)	83	(5,703)
Revaluation deficit, net of tax	-	-	-	-	-	(328)	-	-	(328)	-	(328)
Total other comprehensive income, net of tax	-	-	-	-	(5,786)	(328)	-	-	(6,114)	83	(6,031)
Transfer	-	-	-	-	-	-	(2,906)	2,906	-	-	-
Acquisition of subsidiaries <i>39(a)</i>	-	-	-	-	-	-	-	-	-	(113)	(113)
At 31 December 2015	62,508	162,813	-	(180)	3,523	4,349	7,442	(274,299)	(33,844)	(1,810)	(35,654)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	2015 HK\$'000	2014 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss)/profit before tax:		
From continuing operations	(70,198)	(54,072)
From discontinued operations	941	(23,067)
	(69,257)	(77,139)
Adjustments for:		
Depreciation	3,055	3,364
Amortisation of operating concessions	869	9,868
Amortisation of intangible assets	1,893	2,168
Reversal of impairment loss on amount due from a joint venture	(1,016)	(843)
Impairment loss on trade receivables	11,774	18,749
Impairment loss on other receivables	6,200	377
Impairment loss on intangible assets	–	777
Impairment loss on goodwill	3,818	1,919
Write-down of obsolete inventories	795	1,686
Finance lease charges	506	339
Interest expenses	9,293	16,503
Interest income	(854)	(198)
Net loss on disposal of property, plant and equipment	118	75
Gain on sale and leaseback of property, plant and equipment	(589)	(349)
Written off of property, plant and equipment	59	–
Fair value loss on financial assets at fair value through profit or loss	41	300
Fair value of contribution margin from grantor	–	(2,609)
Operating loss before working capital changes	(33,295)	(25,013)
– Decrease in inventories	966	2,923
– Increase in gross amount due from customers for contract work	(2,115)	(9,639)
– Increase in trade and other receivables	(30,612)	(42,124)
– Increase in trade and other payables	62,259	6,402
Cash used in operations	(2,797)	(67,451)
Income tax paid	–	(90)
Finance lease charges paid	(506)	(339)
Net cash used in operating activities	(3,303)	(67,880)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

		2015 HK\$'000	2014 HK\$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Payment for purchase of property, plant and equipment		(1,853)	(1,245)
Proceeds from disposal of property, plant and equipment		24	3
Payment for the construction cost of operating concessions		–	(21,290)
Net cash outflow for acquisition of subsidiaries	39(a)	(1,463)	–
Disposal of subsidiaries	39(b)	35,934	–
Interest income received		854	198
Decrease/(increase) in restricted and pledged bank deposits		12,332	(15,395)
Advanced proceeds from disposal of business		–	63,000
Funds received from a joint venture		–	843
Net cash generated from investing activities		45,828	26,114
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from new bank loans		11,160	26,334
Proceeds from bonds		17,450	–
(Repayment)/proceeds from other borrowings		(252)	252
Repayment of bank loans		(40,194)	(7,560)
Proceeds from sales and leaseback of property, plant and equipment		–	10,710
Repayment of finance lease payables		(3,744)	(1,620)
Capital injection by non-controlling interests		–	1,744
Interest paid		(9,293)	(17,689)
Net cash (used in)/generated from financing activities		(24,873)	12,171
Net increase/(decrease) in cash and cash equivalents		17,652	(29,595)
Cash and cash equivalents at beginning of year		9,507	42,529
Effect of foreign exchange rate changes		(2,003)	(3,427)
Cash and cash equivalents at end of year		25,156	9,507
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank and cash balances	29	25,156	7,879
Bank and cash balances classified as part of a disposal group as held for sale	30	–	1,628
		25,156	9,507

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

1. General Information

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

The principal activity of the Company is investment holding. The principal activities of the principal subsidiaries are described in note 44.

At 31 December 2015, the Directors consider the immediate parent of the Group to be Gentle International Holdings Limited, which is incorporated in the British Virgin Islands; and the ultimate parent of the Group to be Classy Jade Limited, which is incorporated in the Republic of Seychelles and controlled by Mr. Xu Zhong Ping, the chairman of the Company. The immediate and ultimate parent do not produce financial statements available for public use.

2. Basis of Preparation

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). HKFRSs comprise Hong Kong Financial Reporting Standards (“HKFRS”); Hong Kong Accounting Standards (“HKAS”); and Interpretations. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities (the “Listing Rules”) on the Stock Exchange and with the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622).

For the year ended 31 December 2015, the Group incurred a loss for the year of HK\$74,854,000 and had net cash outflows from operating activities of HK\$3,303,000. As at 31 December 2015, the Group had net current liabilities and net liabilities of HK\$48,493,000 and HK\$35,654,000 respectively. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group’s ability to continue as a going concern as a result of which it may be unable to realise its assets and discharge its liabilities in the normal course of business. Accordingly, the Directors of the Company have given careful consideration to the current and anticipated future liquidity of the Group and the ability of the Group to attain profitable and positive cash flows from operations in the immediate and longer term, and the continued financial support from the Group’s bankers and independent bond holders. The Directors considered that it is appropriate to adopt the going concern basis of accounting in preparing these consolidated financial statements, in particular based on the facts below.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

2. Basis of Preparation (Continued)

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

- (a) On 17 February 2015, the Group disposed of Fanhe (Hulu Island) Water Investment Company Limited ("Fanhe Hulu"), a wholly-owned subsidiary, at a total consideration of RMB102 million (equivalent to approximately HK\$129 million) to an indirect shareholder of the Company. A sum of RMB82 million was received during the prior and current years and a final sum of RMB20 million is expected to be collected within 1 year.
- (b) The Directors of the Company have been taking various cost control measures to tighten the costs of operations and various general and administrative expenses.
- (c) On 15 March 2016, the borrower of an entrusted loan of RMB50 million has agreed to extend the due date to April 2017.
- (d) On 29 March 2016, the Company has entered into a subscription agreement to issue convertible bonds in the aggregate principal amount of HK\$65 million.
- (e) The Directors of the Company are presently exploring different alternatives of equity or other financing, including but not limited to issuance of convertible bonds and disposal of assets.

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

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

3. Adoption of New and Revised Hong Kong Financial Reporting Standards and Requirements

(a) Application of new and revised HKFRSs

In the current year, the Group has adopted all the new and revised HKFRSs issued by HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 January 2015.

Amendment to HKAS16 and HKAS38 (Annual Improvements to HKFRSs 2010–2012 Cycle)

The amendment clarifies how the gross carrying amount and the accumulated depreciation/amortisation are treated where an entity uses the revaluation model. This clarification had no effect on its consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. Adoption of New and Revised Hong Kong Financial Reporting Standards and Requirements (Continued)**(a) Application of new and revised HKFRSs (Continued)*****Amendment to HKFRS8 (Annual Improvements to HKFRSs 2010–2012 Cycle)***

The amendment requires disclosure of the judgements made by management in applying the aggregation criteria to operating segments, and clarifies that reconciliations of the total of the reportable segments' assets to the entity's assets are required only if the segment assets are reported regularly. These clarifications had no effect on the Group's consolidated financial statements.

(b) New and revised HKFRSs in issue but not yet effective

The Group has not early applied new and revised HKFRSs that have been issued but are not yet effective for the financial year beginning 1 January 2015. The Directors anticipate that the new and revised HKFRSs will be adopted in the Group's consolidated financial statements when they become effective. The Group is in the process of assessing, where applicable, the potential effect of all new and revised HKFRSs that will be effective in future periods but is not yet in a position to state whether these new and revised HKFRSs would have a material impact on its results of operations and financial position.

HKFRS 9	Financial Instruments ¹
HKFRS 15	Revenue from Contracts with Customers ¹
Amendments to HKAS 1	Disclosure Initiative ²
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation ²
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle ²

1 *Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.*

2 *Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.*

(c) New Hong Kong Companies Ordinance

The requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation during the financial year. Although the Company is not incorporated in Hong Kong, the Listing Rules require the Company to comply with the disclosure requirements of the new Hong Kong Companies Ordinance (Cap. 622). As a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

(d) Amendments to the Listing Rules on the Stock Exchange

The Stock Exchange in April 2015 released revised Appendix 16 of the Listing Rules in relation to disclosure of financial information in annual reports that are applicable for accounting periods ending on or after 31 December 2015, with earlier application permitted. The Company has adopted the amendments resulting in changes to the presentation and disclosures of certain information in the consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. Significant Accounting Policies

These consolidated financial statements have been prepared under the historical cost convention, except for certain properties and financial instruments that are measured at fair value as mentioned in the accounting policies below.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 5.

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below.

4.1 Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. 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. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill and any accumulated exchange reserve relating to that subsidiary.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. Significant Accounting Policies (Continued)

4.1 Consolidation (Continued)

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

4.2 Business combination and goodwill

The acquisition method is used to account for the acquisition of a subsidiary in a business combination. The consideration transferred in a business combination is measured at the acquisition-date fair value of the assets given, equity instruments issued, liabilities incurred and any contingent consideration. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received. Identifiable assets and liabilities of the subsidiary in the acquisition are measured at their acquisition-date fair values.

The excess of the sum of the consideration transferred over the Group's share of the net fair value of the subsidiary's identifiable assets and liabilities is recorded as goodwill. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the sum of the consideration transferred is recognised in consolidated profit or loss as a gain on bargain purchase which is attributed to the Group.

In a business combination achieved in stages, the previously held equity interest in the subsidiary is remeasured at its acquisition-date fair value and the resulting gain or loss is recognised in consolidated profit or loss. The fair value is added to the sum of the consideration transferred in a business combination to calculate the goodwill.

The non-controlling interests in the subsidiary are initially measured at the non-controlling shareholders' proportionate share of the net fair value of the subsidiary's identifiable assets and liabilities at the acquisition date.

After initial recognition, goodwill is measured at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs") or groups of CGUs that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. Goodwill impairment reviews are undertaken annually, or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to its recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. Significant Accounting Policies (Continued)

4.3 Associates

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether the Group has significant influence. In assessing whether a potential voting right contributes to significant influence, the holder's intention and financial ability to exercise or convert that right is not considered.

Investment in an associate is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of the investment over the Group's share of the net fair value of the associate's identifiable assets and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

The Group's share of an associate's post-acquisition profits or losses and other comprehensive income is recognised in consolidated statement of profit or loss and other comprehensive income. When the Group's share of losses in an associate equals or exceeds its interest in the associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

The gain or loss on the disposal of an associate that results in a loss of significant influence represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that associate and (ii) the Group's entire carrying amount of that associate (including goodwill) and any related accumulated exchange reserve. If an investment in an associate becomes an investment in a joint venture, the Group continues to apply the equity method and does not remeasure the retained interest.

Unrealised profits on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. Significant Accounting Policies (Continued)

4.4 Joint arrangements

A joint arrangement is an arrangement of which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Relevant activities are activities that significantly affect the returns of the arrangement. When assessing joint control, the Group considers its potential voting rights as well as potential voting rights held by other parties. A potential voting right is considered only if the holder has the practical ability to exercise that right.

A joint arrangement is either a joint operation or a joint venture. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. The Group has assessed the type of each of its joint arrangements and determined them to all be joint ventures.

Investment in a joint venture is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the joint venture in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of the investment over the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

The Group's share of a joint venture's post-acquisition profits or losses and other comprehensive income is recognised in consolidated statement of profit or loss and other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture (which includes any long-term interests that, in substance, from part of the Group's net investment in the joint venture), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture. If the joint venture subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

The gain or loss on the disposal of a joint venture that results in a loss of joint control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that joint venture and (ii) the Group's entire carrying amount of that joint venture (including goodwill) and any related accumulated exchange reserve. If an investment in a joint venture becomes an investment in an associate, the Group continues to apply the equity method and does not remeasure the retained interest.

Unrealised profits on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interests in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. Significant Accounting Policies (Continued)

4.5 Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair value in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

(iii) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- Income and expenses are translated at average exchange rates for the period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and
- All resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange reserve.

On consolidation, exchange differences arising from the translation of monetary items that form part of the net investment in foreign entities are recognised in other comprehensive income and accumulated in the exchange reserve. When a foreign operation is sold, such exchange differences are reclassified to consolidated profit or loss as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. Significant Accounting Policies (Continued)**4.6 Property, plant and equipment**

Property, plant and equipment (other than buildings and leasehold land) held for use in the production or supply of goods or services, or for administrative purposes are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Building and leasehold land (classified as finance lease) are carried at fair value, based on periodic valuations by external independent valuers less subsequent depreciation and impairment losses. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Revaluation increases of land and buildings are recognised in profit or loss to the extent that the increases reverse revaluation decreases of the same asset previously recognised in profit or loss. All other revaluation increases are credited to such revaluation reserve as other comprehensive income. Revaluation decreases that offset previous revaluation increases of the same asset remaining in the revaluation reserve are charged against the revaluation reserve as other comprehensive income. All other decreases are recognised in profit or loss. On the subsequent sale or retirement of a revalued land and building, the attributable revaluation increases remaining in the revaluation reserve is transferred directly to retained profits.

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. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

If an inventory becomes held for use, it is reclassified to property, plant and equipment as appropriate, no change in the carrying amount of this item at the date of transfer.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal annual rates are as follows:

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

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

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. Significant Accounting Policies (Continued)

4.7 Leases

The Group as lessee

(i) Operating leases

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

(ii) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. At the commencement of the lease term, a finance lease is capitalised at the lower of the fair value of the leased asset and the present value of the minimum lease payments, each determined at the inception of the lease.

The corresponding liability to the lessor is included in the statement of financial position as finance lease payable. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Assets under finance leases are depreciated the same as owned assets.

(iii) Sales and leaseback

Sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount shall be deferred and amortised over the lease term. No adjustment on sales proceeds is necessary unless there has been an impairment in value, in which case the carrying amount of the asset is reduced to recoverable amount.

The Group as lessor

(i) Operating leases

Leases that do not substantially transfer to the lessees all the risks and rewards of ownership of assets are accounted for as operating leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

4.8 Operating concessions

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. Significant Accounting Policies (Continued)

4.9 Intangible assets

(a) Patent

Purchased patent which has a finite useful life is stated at cost less accumulated amortisation and any accumulated impairment losses. The cost of patent acquired in a business combination is its fair value as at the date of acquisition. Amortisation is calculated on a straight-line basis over the remaining useful life of approximately 8 years from the date of acquisition to 16 October 2018.

(b) Club membership

Club membership which has a finite useful life is stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is calculated on a straight-line over its useful life of 23 years.

(c) Contractual customer relationships

Contractual customer relationships acquired in a business combination are recognised at fair value at the acquisition date. The contractual customer relationships have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line method over the expected life of the customer relationship of 3 years.

4.10 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

4.11 Construction contracts

When the outcome of a construction contract can be estimated reliably, contract costs are recognised as an expense by reference to the stage of completion of the contract at the end of the reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred. The accounting policy for contract revenue is stated in 4.21 below.

Construction contracts in progress at the end of the reporting period are recorded at the amount of costs incurred plus recognised profits less recognised losses and progress billings, and are presented in the consolidated statement of financial position as "Gross amount due from customers for contract work". When progress billings exceed costs incurred plus recognised profits less recognised losses, the surplus is recorded in the consolidated statement of financial position as "Gross amount due to customers for contract work". Progress billings not yet paid by the customer are included in the statement of financial position under "Trade and other receivables". Amounts received before the related work is performed are included in the statement of financial position under "Trade and other payables".

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. Significant Accounting Policies (Continued)

4.12 Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

4.13 Financial assets

Financial assets are recognised and derecognised on a trade date basis where the purchase or sale of a financial assets is under a contract whose terms require delivery of the financial assets within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transactions except in the case of financial assets at fair value through profit or loss.

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

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

Financial assets at fair value through profit or loss are either financial assets classified as held for trading or designated as at fair value through profit or loss upon initial recognition. These financial assets are subsequently measured at fair value. Gains or losses arising from changes in fair value of these financial assets are recognised in profit or loss.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are carried at amortised cost using the effective interest method (except for short-term receivables where interest is immaterial) minus any reduction for impairment or uncollectibility. Typically trade and other receivables, bank balances and cash are classified in this category.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. Significant Accounting Policies (Continued)**4.14 Trade and other receivables**

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

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

4.15 Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

4.16 Non-current assets held for sale and discontinued operations

Non-current assets or disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the assets or disposal groups are available for immediate sale in their present condition. The Group must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets or disposal groups classified as held for sale are measured at the lower of the asset's or disposal group's previous carrying amount and fair value less costs to sell.

A discontinued operation is a component of the Group, (i.e. the operations and cash flows of which can be clearly distinguished from the rest of the Group) that either has been disposed of, or is classified as held for sale, and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the component meets the criteria to be classified as held for sale in accordance with HKFRS 5, if earlier. It also occurs when the component is abandoned or to be abandoned.

When an operation is classified as discontinued, a single amount is presented in the statement of profit or loss, which comprises:

- The post-tax profit or loss of the discontinued operation; and
- The post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group constituting the discontinued operation.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. Significant Accounting Policies (Continued)

4.17 Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

4.18 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

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

4.19 Trade and other payables

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

4.20 Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

4.21 Revenue recognition

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

(i) Sale of goods

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

(ii) Service concession construction revenue

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. Significant Accounting Policies (Continued)

4.21 Revenue recognition (Continued)

(iii) Wastewater treatment revenue

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

(iv) Commission and service

Commission and service income are recognised when services are rendered.

(v) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

(vi) Rental income

Rental income is recognised on a straight-line basis over the lease term.

4.22 Employee benefits

(i) Employee leave entitlements

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

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

(ii) Pension obligations

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the funds.

(iii) Termination benefits

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. Significant Accounting Policies (Continued)

4.23 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 capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

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

4.24 Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because of items of income or expense that are taxable or deductible in other years and 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 differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits 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, and interests in joint arrangements, 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.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. Significant Accounting Policies (Continued)

4.24 Taxation (Continued)

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

4.25 Impairment of non-financial assets

The carrying amounts of non-financial assets are reviewed at each reporting date for indications of impairment and where an asset is impaired, it is written down as an expense through the consolidated statement of profit or loss to its estimated recoverable amount unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the cash-generating unit to which the asset belongs. Recoverable amount is the higher of value in use and the fair value less costs of disposal of the individual asset or the cash-generating unit.

Value in use is the present value of the estimated future cash flows of the asset/cash-generating unit. Present values are computed using pre-tax discount rates that reflect the time value of money and the risks specific to the asset/cash-generating unit whose impairment is being measured.

Impairment losses for cash-generating units are allocated first against the goodwill of the unit and then pro rata amongst the other assets of the cash-generating unit. Subsequent increases in the recoverable amount caused by changes in estimates are credited to profit or loss to the extent that they reverse the impairment unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. Significant Accounting Policies (Continued)

4.26 Impairment of financial assets

At the end of each reporting period, the Group assesses whether its financial assets (other than those at fair value through profit or loss) are impaired, based on objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows of the (group of) financial asset(s) have been affected.

In addition, for trade receivables that are assessed not to be impaired individually, the Group assesses them collectively for impairment, based on the Group's past experience of collecting payments, an increase in the delayed payments in the portfolio, observable changes in economic conditions that correlate with default on receivables, etc.

Only for trade receivables, the carrying amount is reduced through the use of an allowance account and subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For all other financial assets, the carrying amount is directly reduced by the impairment loss.

For financial assets measured at amortised cost, if the amount of the impairment loss decreases in a subsequent period and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed (either directly or by adjusting the allowance account for trade receivables) through profit or loss. However, the reversal must not result in a carrying amount that exceeds what the amortised cost of the financial asset would have been had the impairment not been recognised at the date the impairment is reversed.

4.27 Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present 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 expenditures 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 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 is remote.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. Significant Accounting Policies (Continued)

4.28 Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

5. Critical Judgements and Key Estimates

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

Critical judgements in applying accounting policies

In the process of applying the accounting policies, the Directors have made the following judgements that have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimations, which are dealt with below).

(i) Going concern

These financial statements have been prepared on a going concern basis, the validity of which depends upon the financial support of the bank and potential bond subscribers at a level sufficient to finance the working capital requirements of the Group, successful on the cost control, disposal of assets and fund raising. Details are explained in note 2 to the consolidated financial statements.

Key sources of estimation uncertainty

Management makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (excluding those classified as part of a disposal group as held for sale) within the next financial year are addressed below.

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

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

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

As at 31 December 2015, the carrying amount of property, plant and equipment is HK\$29,001,000 (2014: HK\$31,517,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

5. Critical Judgements and Key Estimates (Continued)

Key sources of estimation uncertainty (Continued)

(ii) *Impairment loss for bad and doubtful debts*

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

As at 31 December 2015, accumulated impairment loss for bad and doubtful debts amounted to HK\$18,569,000 (2014: HK\$608,000) from continuing operations.

(iii) *Income taxes*

Determining income tax provisions involves judgement on the future tax treatment of certain transactions and significant estimation are regard in determining the provision for income tax. Management carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered. The Group has not recognised deferred income tax assets in respect of estimated tax losses carried forward disclosed in note 35 as there is no evidence that future taxable profits will be available. During the year, HK\$687,000 (2014: HK\$92,000) of income tax was charged (2014: credited) to profit or loss based on the loss from continuing operations.

(iv) *Impairment of other intangible assets*

Management determines whether an asset is impaired at least on an annual basis. This requires an estimation of the value in use of the assets or cash-generating units to which the asset is allocated. Estimating the value in use requires management to make an estimate of the expected future cash flows from the assets or cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

During the year, an impairment loss of HK\$Nil (2014: HK\$777,000) was recognised to reduce the carrying amounts of intangible assets to their recoverable amount.

(v) *Impairment of goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at the end of the reporting period was HK\$Nil (2014: HK\$Nil) after an impairment loss of HK\$3,818,000 was recognised during the year. Details of the impairment loss calculation are provided in note 22 to the consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

5. Critical Judgements and Key Estimates (Continued)

Key sources of estimation uncertainty (Continued)

(vi) *Write-down for obsolescence of inventories*

Management determines the write-down for obsolescence of inventories. These estimates are based on the current market conditions and the historical experience on selling goods of similar nature. It could change significantly as a result of changes in market conditions.

During the year ended 31 December 2015, the amount of write-down for obsolescence of inventories was HK\$795,000 (2014: HK\$1,686,000).

(vii) *Revenue and profit recognition*

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

During the year, HK\$26,836,000 (2014: HK\$15,280,000) and HK\$19,239,000 (2014: HK\$25,084,000) of revenue from construction contracts from continuing operations (disclosed in sale of wastewater treatment machineries in note 8) and discontinued operation was recognised respectively.

6. Financial Risk Management

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

6.1 Foreign exchange risk

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

6. Financial Risk Management (Continued)

6.1 Foreign exchange risk (Continued)

The Group ensures that the exposure on recognised assets and liabilities arising from sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate is kept to an acceptable level, by buying or selling foreign currency at spot rate where necessary to address short-term imbalances. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

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

6.2 Price risk

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

At 31 December 2015, if the quoted market prices of the trading securities had been 20% higher or lower while all other variables were held constant, the Group's loss before tax for the year would decrease or increase by approximately HK\$20,000 (2014: HK\$28,000) and the Group's equity would increase or decrease by approximately HK\$20,000 (2014: HK\$28,000) as a result of changes in fair value of investments.

The sensitivity analysis has been determined assuming that the reasonably possible changes in the stock prices had occurred at the end of the reporting period and had been applied to the exposure to equity price risk in existence at that date. The stated changes represent management's assessment of reasonably possible changes in the relevant stock price over the period until the end of the next annual reporting period. The analysis is performed on the same basis for 2014.

6.3 Cash flow and fair value interest rate risk

The Group's exposure to fair value interest rate risk arises primarily from the Group's interest-bearing borrowings which carry interest at fixed rates.

The Group does not use financial derivatives to hedge against the interest rate risk, monitor and the Group's interest rate profile closely.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

6. Financial Risk Management (Continued)

6.4 Credit risk

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

(i) *Trade and other receivables*

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

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. At the end of the reporting period, the Group has concentration of credit risk as 48% (2014: 13%) and 96% (2014: 83%) of the total trade related receivables was due from the Group's largest customer and the five largest customers respectively.

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

(ii) *Deposits with financial institutions*

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

As at 31 December 2015, the Group has certain concentration of credit risk as 74% (2014: 51%) of total cash and cash equivalents and restricted and pledged bank deposits were deposited at reputable banks located in the People's Republic of China ("PRC") which management believes are of high credit quality and without significant credit risk.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

6. Financial Risk Management (Continued)**6.5 Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's policy is to regularly monitor its current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash. The Directors closely monitor the Group's liquidity position and plans to implement initiatives to improve the Group's cash flow by obtaining adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. The Group relies on bank borrowings as a significant source of liquidity.

At 31 December 2015, the total banking facilities granted to the Group amounted to HK\$23,800,000 (2014: HK\$149,940,000) of which HK\$10,710,000 (2014: HK\$112,014,000) were utilised. Therefore, the Group has available un-utilised banking facilities of approximately HK\$13,090,000 (2014: HK\$37,926,000).

The following table details the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities including those classified as part of a disposal group as held for sale, which are based on the contractual undiscounted cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay.

	At 31 December 2015					Total contractual undiscounted cash flows HK\$'000	Carrying amount HK\$'000
	Within 1 year or on demand HK\$'000	More than 1 year but less than 2 years HK\$'000	More than 2 years but less than 5 years HK\$'000	After 5 years HK\$'000			
Trade and other payables	60,372	-	-	-	-	60,372	60,372
Bank loans	11,168	-	-	-	-	11,168	10,710
Bonds	1,221	1,221	19,599	-	-	22,041	17,450
Entrusted loan	61,880	-	-	-	-	61,880	59,500
Finance lease payables	3,807	1,904	-	-	-	5,711	5,346
	138,448	3,125	19,599	-	-	161,172	153,378

	At 31 December 2014					Total contractual undiscounted cash flows HK\$'000	Carrying amount HK\$'000
	Within 1 year or on demand HK\$'000	More than 1 year but less than 2 years HK\$'000	More than 2 years but less than 5 years HK\$'000	After 5 years HK\$'000			
Trade and other payables	132,354	-	-	-	-	132,354	132,354
Bank loans	99,093	21,272	-	-	-	120,365	112,014
Other borrowings	258	-	-	-	-	258	252
Entrusted loan	7,560	65,340	-	-	-	72,900	63,000
Finance lease payables	4,032	6,047	-	-	-	10,079	9,090
	243,297	92,659	-	-	-	335,956	316,710

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

6. Financial Risk Management (Continued)**6.6 Capital management**

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

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

The Group monitors its capital structure on the basis of a net debt to equity capital ratio. For this purpose the Group defines net debt as total debt which includes borrowings and finance lease payables less bank deposits and cash of continuing operations. Total equity comprises all components of equity.

During the year ended 31 December 2015, the Group's strategy, which was unchanged from previous year, was to maintain the net debt to equity ratio as low as feasible. The net debt to equity ratio at 31 December 2015 and 2014 was as follows:

	2015 HK\$'000	2014 HK\$'000
Current liabilities:		
Bank and other borrowings	10,710	12,726
Entrusted loan	59,500	–
Finance lease payables	3,496	3,430
Non-current liabilities:		
Bonds	17,450	–
Entrusted loan	–	63,000
Finance lease payables	1,850	5,660
Total debt	93,006	84,816
Less: Restricted and pledged bank deposits	(4,284)	(16,326)
Cash and cash equivalents	(25,156)	(7,879)
Net debt	63,566	60,611
(Capital deficiency)/Total equity	(35,654)	45,344
Net debt to equity ratio	(178.3%)	133.7%

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

6. Financial Risk Management (Continued)

6.6 Capital management (Continued)

In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to owners, issue new shares or sell assets to reduce debt. The Group has taken actions to address the capital deficiency set out in note 2 to the consolidated financial statements.

The externally imposed capital requirement for the Group is in order to maintain its listing on the Stock Exchange it has to have a public float of at least 25% of the shares.

The Group receives a report from the share registrars weekly on substantial share interests showing the non-public float and it demonstrates continuing compliance with the 25% limit throughout the year. As at 31 December 2015, 49.5% (2014: 49.5%) of the shares were in public hands.

6.7 Categories of financial instruments at 31 December

The financial assets and financial liabilities below included those classified as part of a disposal group as held for sale.

	2015 HK\$'000	2014 HK\$'000
Financial assets:		
Financial assets at fair value through profit or loss:		
Held for trading	99	140
Loans and receivables (including cash and cash equivalents)	87,426	71,475
Financial liabilities:		
Financial liabilities at amortised cost	153,378	316,710

6.8 Fair value

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

7. Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following table presents the fair value of the Group's financial instruments and land and buildings 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 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.
- Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs: unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

7.1 Disclosures of level in fair value hierarchy at 31 December:

	2015				2014			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Recurring fair value measurements:								
Financial assets								
Financial assets at fair value through profit or loss								
Listed securities in Hong Kong	99	–	–	99	140	–	–	140
Land and buildings								
Residential units – PRC	–	–	14,161	14,161	–	–	14,994	14,994
Total	99	–	14,161	14,260	140	–	14,994	15,134

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

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For the year ended 31 December 2015

7. Fair Value Measurements (Continued)**7.1 Disclosures of level in fair value hierarchy at 31 December: (Continued)**

	Land and buildings – PRC HK\$'000
At 1 January 2014	14,390
Total gains or (losses):	
in profit or loss	(294)
in other comprehensive income	898
At 31 December 2014 and 1 January 2015	14,994
Total gains or (losses):	
in profit or loss	(312)
in other comprehensive income	(521)
At 31 December 2015	14,161

The total losses recognised in other comprehensive income of HK\$521,000 (2014: gains of HK\$898,000) are presented in the consolidated statement of profit or loss and other comprehensive income and accumulated in the revaluation reserve, net of deferred tax.

7.2 Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements:

The following summarises the major methods and assumptions used in fair value measurements of assets and liabilities required for financial reporting purposes, including level 3 fair value measurements.

(i) Trading securities

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

(ii) Interest-bearing loans and borrowings

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

7. Fair Value Measurements (Continued)**7.2 Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements: (Continued)****(iii) Land and buildings**

The Group's finance department considers and discusses the valuations performed by the independent valuers for financial reporting purposes, including all key inputs to the valuations and property valuations movements as compared to the prior year.

For level 3 fair value measurements, the Group will normally engage external valuation experts with the recognised professional qualifications and recent experience to perform the valuations.

Level 3 fair value measurements:

Description	Valuation technique	Significant unobservable inputs	Range (weighted average)	Fair value 2015 HK\$'000	Fair value 2014 HK\$'000
Land and buildings in the PRC	Direct comparison approach	Premium on characteristic of the properties	-10% to 10% (2014: -10% to 10%)	14,161	14,994

The fair value of properties held for own use are determined using direct comparison approach with reference to proposed/recent transactions of similar properties in the locality with adjustments made subject to the differences between the subject properties and the comparable properties. The valuations take into account the characteristic of the properties which included the location, size, view, floor level, year of completion and other factors collectively. Higher premium for properties with higher characteristic will result in a higher fair value measurement.

During the two years, there were no changes in the valuation techniques used.

8. Revenue

Revenue represents the turnover from the principal activities of the Group's continuing operations, i.e. the provision of wastewater treatment services, trading of wastewater treatment machineries and sale of goods.

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

	2015 HK\$'000	2014 HK\$'000
Sales of wastewater treatment machines and related services	35,721	39,816
Sales of goods	172	26,806
Wastewater treatment services	26,106	22,697
	61,999	89,319

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For the year ended 31 December 2015

9. Other Income

	2015 HK\$'000	2014 HK\$'000
Continuing operations		
Interest income on bank deposits	854	185
Total interest income for financial assets that are not at fair value through profit or loss	854	185
Rental income from sub-letting of offices	–	120
Others	91	18
	945	323

10. Other Losses, Net

	2015 HK\$'000	2014 HK\$'000
Continuing operations		
Net exchange loss	–	(2)
Net loss on disposal of property, plant and equipment	(118)	(75)
Write off of property, plant and equipment	(59)	–
Fair value loss on financial assets at fair value through profit or loss	(41)	(300)
Impairment loss on intangible assets	–	(777)
Impairment loss on goodwill	(3,818)	(1,919)
Gain on sale and leaseback of property, plant and equipment	589	349
Reversal of impairment loss on amount due from a joint venture*	1,016	843
Impairment loss on trade receivables	(11,774)	–
Impairment loss on other receivables	(6,200)	–
Others	4	–
	(20,401)	(1,881)

* During the year ended 31 December 2015, reversal of an impairment loss of HK\$1,016,000 (2014: HK\$843,000) was recognised on the amount due from a joint venture due to the recovery on such amount.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

11. Segment Information

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

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

i. Wastewater treatment and construction services

This segment engages in the provision of wastewater treatment plants construction and operation services.

ii. Wastewater treatment equipment trading

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

11. Segment Information (Continued)

(a) Information about reportable segment profit or loss, assets and liabilities from continuing operations:

	Wastewater treatment and construction services HK\$'000	Wastewater treatment equipment trading HK\$'000	Subtotal HK\$'000	Unallocated HK\$'000	Total HK\$'000
For the year ended 31 December 2015					
Revenue from external customers	26,106	35,893	61,999	–	61,999
Segment loss	(3,088)	(25,602)	(28,690)	(41,508)	(70,198)
Interest income	16	837	853	1	854
Finance costs	546	8,261	8,807	297	9,104
Depreciation and amortisation	3,363	1,009	4,372	472	4,844
Write-down of inventories	795	–	795	–	795
Loss on disposal and write off of property, plant and equipment	–	151	151	26	177
Impairment loss on goodwill	3,818	–	3,818	–	3,818
Impairment loss on intangible assets	–	–	–	–	–
Impairment loss on trade and other receivables	374	6,200	6,574	11,400	17,974
Reversal of impairment loss on amount due from a joint venture	–	1,016	1,016	–	1,016
Additions to non-current assets (other than financial assets and deferred tax assets)	3,894	1,853	5,747	–	5,747
As at 31 December 2015					
Reportable segment assets (including interest in an associate)	43,509	86,432	129,941		
Interest in an associate	–	–	–		
Reportable segment liabilities	29,936	120,147	150,083		

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

11. Segment Information (Continued)

(a) Information about reportable segment profit or loss, assets and liabilities from continuing operations: (Continued)

	Wastewater treatment and construction services HK\$'000	Wastewater treatment equipment trading HK\$'000	Subtotal HK\$'000	Unallocated HK\$'000	Total HK\$'000
For the year ended 31 December 2014					
Revenue from external customers	22,697	39,816	62,513	26,806	89,319
Segment profit/(loss)	322	(22,254)	(21,932)	(32,140)	(54,072)
Interest income	6	162	168	17	185
Finance costs	522	8,066	8,588	–	8,588
Depreciation and amortisation	2,577	2,168	4,745	632	5,377
Write-down of inventories	–	1,686	1,686	–	1,686
Loss on disposal of property, plant and equipment	–	75	75	–	75
Impairment loss on goodwill	–	1,919	1,919	–	1,919
Impairment loss on intangible assets	–	777	777	–	777
Impairment loss on trade and other receivables	248	129	377	–	377
Reversal of impairment loss on amount due from a joint venture	–	843	843	–	843
Additions to non-current assets (other than financial assets and deferred tax assets)	10,935	3,723	14,658	456	15,114
As at 31 December 2014					
Reportable segment assets (including interest in an associate)	15,598	72,471	88,069		
Interest in an associate	–	–	–		
Reportable segment liabilities	17,623	103,200	120,823		

There were no inter-segment sales for the year (2014: HK\$Nil).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

11. Segment Information (Continued)**(b) Reconciliations of reportable segment revenue and profit or loss from continuing operations:**

	2015 HK\$'000	2014 HK\$'000
Revenue		
Total revenue of reportable segments	61,999	62,513
Unallocated revenue	–	26,806
Consolidated revenue from continuing operations	61,999	89,319

The unallocated revenue represented the sale of goods that are non-routine trading activities of the Group, not allocated to any operating segments nor regularly monitored by CODM.

	2015 HK\$'000	2014 HK\$'000
Profit or Loss		
Total loss of reportable segments	(28,690)	(21,932)
Other losses, net	(11,456)	(301)
Unallocated amortisation and depreciation	(472)	(632)
Unallocated head office and corporate expenses	(29,580)	(31,207)
Consolidated loss before tax from continuing operations	(70,198)	(54,072)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

11. Segment Information (Continued)

(c) Reconciliations of reportable segment assets and liabilities:

	At 31 December	
	2015 HK\$'000	2014 HK\$'000
Assets		
Total assets of reportable segments	129,941	88,069
Assets relating to discontinued operations	–	256,898
Elimination of intersegment assets	(2,639)	(2,347)
Unallocated		
– financial assets at fair value through profit or loss	99	140
– cash and cash equivalents and restricted deposits	7,565	12,778
– corporate assets	16,140	28,975
Consolidated total assets	151,106	384,513
Liabilities		
Total liabilities of reportable segments	150,083	120,823
Liabilities relating to discontinued operations	–	139,860
Elimination of intersegment liabilities	(2,639)	(2,347)
Unallocated		
– current tax liabilities	13,639	703
– deferred tax liabilities	2,527	3,067
– corporate liabilities	23,150	77,063
Consolidated total liabilities	186,760	339,169

(d) Geographical information

The Group's revenue from continuing operations from external customers by location of operations and information about its non-current assets by location of assets are detailed below. The geographical location of customers refers to the location at which the services were provided or the goods delivered. The geographical location of property, plant and equipment is based on the physical location of the asset under consideration. In the case of the intangible assets and goodwill, it is based on the location of the operation to which they are allocated.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

11. Segment Information (Continued)

(d) Geographical information (Continued)

	Revenue from external customers		Non-current assets	
	2015 HK\$'000	2014 HK\$'000	2015 HK\$'000	2014 HK\$'000
Hong Kong	–	26,806	273	431
The PRC	61,999	62,513	34,629	39,258
	61,999	89,319	34,902	39,689

(e) Revenue from major customers

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

	2015 HK\$'000	2014 HK\$'000
Discontinued operations:		
Wastewater treatment and construction services under BOT arrangement PRC customer A	21,459	49,345
Continuing operations:		
Wastewater treatment operation services PRC customer B	23,353	22,697
Wastewater treatment equipment trading PRC customer B	–	4,960
PRC customer C	14,857	–
PRC customer D	11,978	14,680
PRC customer E	5,586	15,280
Others – revenue from the sale of goods HK customer F	–	11,400
HK customer G	–	15,406

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

12. Finance Costs

	2015 HK\$'000	2014 HK\$'000
Continuing operations		
Finance lease charges	506	339
Interest expenses on:		
– Bank borrowings	761	487
– Entrusted loan	7,543	7,665
– Bonds	294	–
– Other borrowings	–	97
Total borrowing costs	9,104	8,588

13. Income Tax Expense/(Credit)

Income tax relating to continuing operations has been recognised in profit or loss as following:

	2015 HK\$'000	2014 HK\$'000
PRC Enterprise Income Tax		
– Provision for the year	963	–
– Overprovision in prior years	–	(8)
Deferred tax (<i>note 35</i>)	(276)	(84)
Income tax expense/(credit)	687	(92)

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

No provision for Hong Kong profits tax has been made as the Group has no assessable profits arising in Hong Kong for the years ended 31 December 2015 and 2014.

Beijing Jingrui Kemai Water Purification Technology Company Limited, a wholly-owned subsidiary of the Company, enjoys high-tech enterprise income tax benefit from 2013 to 2015 and the tax rate is 15%.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

13. Income Tax Expense/(Credit) (Continued)

The reconciliation between the income tax expense/(credit) and the product of loss before tax multiplied by the applicable tax rates is as follows:

	2015 HK\$'000	2014 HK\$'000
Loss before tax (from continuing operations)	(70,198)	(54,072)
Notional tax on loss before tax, calculated at the rates applicable to losses in the tax jurisdictions concerned	(14,621)	(10,263)
Tax effect of		
– non-deductible expenses	3,128	366
– non-taxable income	(796)	(2,032)
– tax losses not recognised	13,813	11,845
– utilisation of unused tax losses	(837)	–
– over provision in prior years	–	(8)
Income tax expense/(credit) (relating to continuing operations)	687	(92)

14. Loss for the Year from Continuing Operations

The Group's loss for the year from continuing operations is stated after charging the following:

	2015 HK\$'000	2014 HK\$'000
Amortisation of intangible assets*	1,893	2,168
Cost of inventories sold	38,349	62,778
Depreciation	2,951	3,209
Write-down of obsolete inventories (included in cost of sales)	795	1,686
Auditors' remuneration		
– audit services	980	1,354
– other services	–	800
Operating lease charges in respect of properties	7,099	6,234
Impairment loss on other receivables	6,200	377
Staff costs (including Directors' emoluments)		
– Salaries, wages and other benefits	26,917	34,031
– Pension costs-defined contribution plans	1,066	823
	27,983	34,854

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

15. Discontinued Operations

On 19 December 2014, the Group entered into a sale and purchase agreement with Beijing Capital Co., Ltd to dispose of the entire equity interest in Fanhe Hulu at a total consideration of RMB102 million (equivalent to approximately HK\$129 million). The principal asset of Fanhe Hulu is the concession rights to a wastewater treatment plant project under a BOT basis, details are disclosed in note 20. The disposal was completed on 17 February 2015. The results of the discontinued operations included in the loss for the year are set out below.

(a) Loss for the year from discontinued operations:

	Period from 1.1.2015 to 17.2.2015 HK\$'000	Year ended 31.12.2014 HK\$'000
Revenue	21,459	49,345
Cost of sales	(19,624)	(42,429)
Other income	–	13
Other losses	–	(18,749)
Administrative expenses	(199)	(2,993)
Profit/(loss) from operations	1,636	(14,813)
Finance costs	(695)	(8,254)
Profit/(loss) before tax	941	(23,067)
Income tax credit	68	581
	1,009	(22,486)
Gain on disposal of operations	7,515	–
Income tax expenses	(12,493)	–
Loss for the year from discontinued operations (attributable to the owners of the Company)	(3,969)	(22,486)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

15. Discontinued Operations (Continued)**(b) Loss for the year from discontinued operation includes the following:**

	Period from 1.1.2015 to 17.2.2015 HK\$'000	Year ended 31.12.2014 HK\$'000
Auditor's remuneration	–	54
Interest income	–	(13)
Interest expenses on bank borrowings	695	9,440
Amount capitalised*	–	(1,186)
	695	8,254
Amortisation of operating concessions (included in cost of sales)	869	9,868
Depreciation	104	155
Cost of construction contracts	17,238	22,476
Staff costs	100	2,514
Impairment loss on trade receivables	–	18,749

* The borrowing costs were capitalised from the loan borrowed specifically to obtain for the particular qualifying asset for the year ended 31 December 2014.

(c) Cash flows from discontinued operations:

	2015 HK\$'000	2014 HK\$'000
Net cash inflows from operating activities	40,117	13,331
Net cash outflows from investing activities	(19,246)	(36,375)
Net cash (outflows)/inflows from financing activities	(18,114)	14,535
Net cash inflows/(outflows)	2,757	(8,509)

Fanhe Hulu has been classified and accounted for at 31 December 2014 as a disposal group held for sale (note 30).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

16. Benefits and Interests of Directors and Employees

(a) Directors' emoluments

The remuneration of each Director is as follows:

	Year ended 31 December 2015				
	Emoluments paid or receivable in respect of a person's services as a Director whether of the Company or its subsidiary undertaking				
	Directors' fees HK\$'000	Salaries HK\$'000	Retirement scheme contributions HK\$'000	Equity-settled share-based payment HK\$'000	Total HK\$'000
Executive Directors					
Mr. Xu Zhong Ping	-	1,950	-	-	1,950
Mr. Pan Yutang	-	1,560	-	-	1,560
Mr. Zhang Fang Hong	-	1,560	-	-	1,560
Mr. Xu Xiao Yang	-	1,300	-	-	1,300
	-	6,370	-	-	6,370
Non-executive Directors					
Mr. Cao Guoxian	-	-	-	-	-
Mr. Ma Tian Fu	240	-	-	-	240
	240	-	-	-	240
Independent non-executive Directors					
Mr. Xin Luo Lin (<i>retired on 27 May 2015</i>)	50	-	-	-	50
Mr. Tse Chi Wai (<i>appointed on 27 May 2015</i>)	72	-	-	-	72
Pro. Zhu Nan Wen	120	-	-	-	120
Pro. Zuo Jiane	120	-	-	-	120
	362	-	-	-	362
	602	6,370	-	-	6,972

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

16. Benefits and Interests of Directors and Employees (Continued)

(a) Directors' emoluments (Continued)

	Year ended 31 December 2014				
	Emoluments paid or receivable in respect of a person's services as a Director whether of the Company or its subsidiary undertaking				
	Directors' fees HK\$'000	Salaries HK\$'000	Retirement scheme contributions HK\$'000	Equity-settled share-based payment HK\$'000	Total HK\$'000
Executive Directors					
Mr. Xu Zhong Ping	-	1,950	-	-	1,950
Mr. Pan Yutang	-	1,560	-	-	1,560
Mr. Zhang Fang Hong	-	1,560	-	-	1,560
Mr. Xu Xiao Yang	-	1,300	-	-	1,300
	-	6,370	-	-	6,370
Non-executive Directors					
Mr. Cao Guoxian (<i>appointed on 25 June 2014</i>)	-	-	-	-	-
Mr. Ge Ze Min (<i>retired on 24 June 2014</i>)	-	-	-	-	-
Mr. Ma Tian Fu	240	-	-	-	240
	240	-	-	-	240
Independent non-executive Directors					
Mr. Xin Luo Lin (<i>retired on 27 May 2015</i>)	170	-	-	-	170
Mr. Wong Kam Wah (<i>resigned on 31 December 2014</i>)	120	-	-	-	120
Prof. Zhu Nan Wen	120	-	-	-	120
Prof. Zuo Jiane	120	-	-	-	120
	530	-	-	-	530
	770	6,370	-	-	7,140

None of the Directors has waived or agreed to waive any emoluments during the year (2014: HK\$Nil)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

16. Benefits and Interests of Directors and Employees (Continued)**(b) Directors' material interests in transactions, arrangements or contracts**

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a Director of the Company and the Director's connected party had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

(c) Five highest paid individuals

The five highest paid individuals in the Group during the year included four (2014: four) Directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining one (2014: one) individual are set out below:

	2015 HK\$'000	2014 HK\$'000
Salaries and other emoluments	1,286	945
Retirement scheme contributions	–	–
Equity-settled share-based payments	–	–
	1,286	945

The emoluments fell within the following band:

	Number of individuals	
	2015	2014
HK\$Nil – HK\$1,000,000	–	1
HK\$1,000,001 – HK\$1,500,000	1	–

During the year, no emoluments were paid by the Group to any of the Directors or the highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

17. Dividends

The board of Directors do not recommend the payment of any dividend for the year ended 31 December 2015 (2014: HK\$Nil).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

18. Loss per share**(a) From continuing and discontinued operations**

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

	2015 HK\$'000	2014 HK\$'000
Loss		
Loss for the year for the purpose of calculating basic and diluted loss per share	(74,117)	(75,307)
Number of shares	'000	'000
Weighted average number of ordinary shares for the purpose of calculating basic and diluted loss per share	2,500,303	2,500,303

(b) From continuing operations

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

	2015 HK\$'000	2014 HK\$'000
Loss		
Loss for the year	(74,117)	(75,307)
Less: Loss for the year from discontinued operations	(3,969)	(22,486)
Loss for the purpose of calculating basic and diluted loss per share from continuing operations	(70,148)	(52,821)

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

(c) From discontinued operations

Basic and diluted loss per share from the discontinued operations is HK0.16 cents per share (2014: HK0.90 cents per share), based on the loss for the year from discontinued operations attributable to the owners of the Company of approximately HK\$3,969,000 (2014: approximately HK\$22,486,000) and the denominators used are the same as those detailed above for both basic and diluted loss per share.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

19. Property, Plant and Equipment

	Leasehold improvements HK\$'000	Land and buildings held for own use HK\$'000	Machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
At 1 January 2014	22	14,390	8,937	5,662	4,367	33,378
Exchange adjustments	-	-	(71)	131	235	295
Additions	-	-	11,170	190	595	11,955
Transferred from inventories	-	-	3,306	-	-	3,306
Disposals	-	-	(10,376)	(889)	-	(11,265)
Surplus on revaluation	-	898	-	-	-	898
Transfer between categories	-	-	2,021	(2,024)	3	-
Elimination of accumulated depreciation	-	(294)	-	-	-	(294)
Transfer to disposal group classified as held for sale	-	-	(123)	(180)	(917)	(1,220)
At 31 December 2014	22	14,994	14,864	2,890	4,283	37,053
Representing						
At cost	22	-	14,864	2,890	4,283	22,059
At valuation	-	14,994	-	-	-	14,994
	22	14,994	14,864	2,890	4,283	37,053
At 1 January 2015	22	14,994	14,864	2,890	4,283	37,053
Exchange adjustments	(58)	-	(826)	(85)	(226)	(1,195)
Additions	1,413	-	-	26	414	1,853
Acquisition of a subsidiary	-	-	-	76	-	76
Transferred from inventories	-	-	-	-	96	96
Disposals/written off	-	-	-	(282)	(178)	(460)
Deficit on revaluation	-	(521)	-	-	-	(521)
Elimination of accumulated depreciation	-	(312)	-	-	-	(312)
At 31 December 2015	1,377	14,161	14,038	2,625	4,389	36,590
Representing						
At cost	1,377	-	14,038	2,625	4,389	22,429
At valuation	-	14,161	-	-	-	14,161
	1,377	14,161	14,038	2,625	4,389	36,590

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

19. Property, Plant and Equipment (Continued)

	Leasehold improvements HK\$'000	Land and buildings held for own use HK\$'000	Machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Accumulated depreciation						
At 1 January 2014	11	-	443	2,946	1,871	5,271
Exchange adjustments	-	-	(3)	151	254	402
Charge for the year	11	294	1,327	761	971	3,364
Written back on disposals	-	-	(1,462)	(811)	-	(2,273)
Transfer between categories	-	-	596	(596)	-	-
Elimination on revaluation	-	(294)	-	-	-	(294)
Transfer to disposal group classified as held for sale	-	-	(4)	(142)	(788)	(934)
At 31 December 2014 and 1 January 2015	22	-	897	2,309	2,308	5,536
Exchange adjustments	(1)	-	(113)	(63)	(150)	(327)
Charge for the year	-	312	1,560	257	822	2,951
Written back on disposals/written off	-	-	-	(189)	(70)	(259)
Elimination on revaluation	-	(312)	-	-	-	(312)
At 31 December 2015	21	-	2,344	2,314	2,910	7,589
Carrying amount						
At 31 December 2015	1,356	14,161	11,694	311	1,479	29,001
At 31 December 2014	-	14,994	13,967	581	1,975	31,517

The Group's land and buildings were revalued at 31 December 2015 and 2014 on the direct comparison approach by Grant Sherman Appraisals Limited, an independent professional qualified valuer.

The leasehold land and buildings were held in the PRC under medium-term leases.

At 31 December 2015, the carrying amount of machinery held by the Group under finance leases amounted to HK\$8,384,000 (2014: HK\$10,035,000).

If the leasehold land and buildings were stated on the historical cost basis, their carrying amounts would be HK\$10,481,000 (2014: HK\$10,707,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

20. Operating Concessions

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

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

The Group has contractual obligations which it must fulfil as a condition of its operating concessions, that is (a) to maintain the wastewater and water treatment plants it operates to a specified level of serviceability and/or (b) to restore the plants to a specified condition before they are handed over to the grantor at the end of the service concession arrangement. These contractual obligations to maintain or restore the wastewater and water treatment plants, except for upgrading elements, are recognised and measured in accordance with the policy set out in note 4.8.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

20. Operating Concessions (Continued)

In accordance with the accounting policy for operating concessions as set out in note 4.8, the consideration paid by the Group for the operating concessions is accounted for as an intangible asset (the “operating concessions”). The carrying amount of the Group’s operating concessions is as follows:

	HK\$'000
Cost	
At 1 January 2014	263,283
Additions – construction costs	25,085
Exchange adjustments	(2,073)
Transfer to disposal group classified as held for sale	(286,295)
At 31 December 2014, 1 January 2015 and 31 December 2015	–
Accumulated amortisation	
At 1 January 2014	26,375
Amortisation charge	9,868
Exchange adjustments	(207)
Transfer to disposal group classified as held for sale	(36,036)
At 31 December 2014, 1 January 2015 and 31 December 2015	–
Carrying amount	
At 31 December 2015	–
At 31 December 2014	–

Additions of operating concessions are analysed as follows:

	2015 HK\$'000	2014 HK\$'000
Construction cost of operating concessions	–	22,476
Fair value of contribution margin received from the grantor	–	2,609
Additions of operating concessions	–	25,085

Included in additions are capitalised interest expenses of HK\$Nil for the year (2014: HK\$1,186,000).

Amortisation has been provided on a straight-line basis over the period of the operating concessions granted to the Group of 30 years from April 2010 to March 2040.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

21. Intangible Assets

	Club memberships HK\$'000 (note i)	Patent HK\$'000 (note ii)	Contractual customer relationship HK\$'000 (note iii)	Total HK\$'000
Cost				
At 1 January 2014	1,973	65,354	618	67,945
Exchange adjustments	(15)	(514)	(5)	(534)
At 31 December 2014 and 1 January 2015	1,958	64,840	613	67,411
Exchange adjustments	(109)	(3,602)	(34)	(3,745)
At 31 December 2015	1,849	61,238	579	63,666
Accumulated amortisation and impairment losses				
At 1 January 2014	233	56,368	137	56,738
Amortisation charge	86	1,878	204	2,168
Impairment losses	–	777	–	777
Exchange adjustments	(1)	(443)	–	(444)
At 31 December 2014 and 1 January 2015	318	58,580	341	59,239
Amortisation charge	85	1,607	201	1,893
Exchange adjustments	(21)	(3,319)	(27)	(3,367)
At 31 December 2015	382	56,868	515	57,765
Carrying amount				
At 31 December 2015	1,467	4,370	64	5,901
At 31 December 2014	1,640	6,260	272	8,172

Notes:

- (i) The Group holds a membership right in Sand River Golf Club with a useful life of 23 years.
- (ii) The patent of the wastewater treatment equipment trading segment has a finite life and will expire on 16 October 2018. The Group engaged Grant Sherman Appraisal Limited to carry out the valuation of the patent at 31 December 2015. Grant Sherman adopted a relief-from-royalty approach, a form of income approach, at a post-tax discount rate of 19% (2014: 19%) to determine the recoverable amount of the patent. The calculation is based on a financial projection covering a period of approximately 3 years. Management estimated the financial projection based on management approved budget which is based on a forecast of operating results for the first year and based on their experience for the second to third years.

The amortisation charge of HK\$1,607,000 (2014: HK\$1,878,000) and impairment loss of HK\$Nil (2014: HK\$777,000) were included in 'cost of sales' and 'other losses, net' in the consolidated statement of profit or loss respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

21. Intangible Assets (Continued)*Notes: (Continued)*

(iii) Contractual customer relationships acquired in a business combination are recognised at fair value at the acquisition date.

The amortisation charge of HK\$201,000 (2014: HK\$204,000) is included in 'cost of sales' in the consolidated statement of profit or loss.

22. Goodwill

	HK\$'000
Cost	
At 1 January 2014	2,689
Exchange difference	(21)
At 31 December 2014 and 1 January 2015	2,668
Arising on acquisition of subsidiaries	3,818
Exchange difference	(148)
At 31 December 2015	6,338
Accumulated impairment loss	
At 1 January 2014	770
Impairment loss	1,919
Exchange difference	(21)
At 31 December 2014 and 1 January 2015	2,668
Impairment loss	3,818
Exchange difference	(148)
At 31 December 2015	6,338
Carrying amount	
At 31 December 2015	–
At 31 December 2014	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

22. Goodwill (Continued)

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (“CGUs”) that are expected to benefit from that business combination. The carrying amount of goodwill before impairment had been allocated as follows:

	2015 HK\$'000	2014 HK\$'000
Wastewater treatment and construction services		
Shenzhen Huaxin Zhongshui Protection Engineering Co. Ltd (“Shenzhen Huaxin”)	2,520	2,668
Beijing Capital Environmental Construction Company Limited and its subsidiaries (“BCEC Group”)	3,818	–
	6,338	2,668

Each of the above is viewed as one CGU.

The recoverable amounts of the CGUs have been determined on the basis of their value in use using discounted cash flow method. The key assumptions for the discounted cash flow method are those regarding the discount rates, growth rates and budgeted gross margin and turnover during the period. The Group estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on long-term average economic growth rate of the geographical area in which the businesses of the CGUs operate. Budgeted gross margin and turnover are based on past practices and expectations on market development.

The goodwill allocated to Shenzhen Huaxin was fully impaired in previous year.

As referred to note 39(a), the acquisition of BCEC Group is to align the Group’s continuous expansion to its core principal activities. The Group originally anticipated that the contribution of future new project by BCEC Group, as who was negotiating an environmental project on a BOT basis as at the date of acquisition. However, BCEC Group lost the project finally and all staff were dismissed, and BCEC Group ceased to operate then. No cash flow forecast was prepared by management due to no future business prospects of BCEC Group. As a result, the recoverable amount of BCEC Group has been reduced to zero, and a full impairment loss of HK\$3,818,000 was recognised during the year.

The impairment loss of HK\$3,818,000 (2014: HK\$1,919,000) is included in ‘other losses, net’ in the consolidated statement of profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

23. Interest in an Associate

	2015 HK\$'000	2014 HK\$'000
Share of net assets	–	–

The particulars of the associate of the Group, which is unlisted, as at 31 December 2015, are as follows:

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

The Group's share of the amount of the immaterial associate that are accounted for using the equity method:

	2015 HK\$'000	2014 HK\$'000
At 31 December 2015		
Carrying amount of interests	–	–
For the year ended 31 December 2015		
Loss for the year	–	–
Other comprehensive income	–	–
Total comprehensive income	–	–

The Group has discontinued the recognition of its share of loss of the associate because the share of loss of the associate exceeded the Group's interest in the associate and the Group has no obligation to take up further losses. The amounts of the Group's unrecognised share of losses of this associate for the current year and cumulatively were HK\$Nil (2014: HK\$1,986,000) and HK\$694,000 (2014: HK\$2,021,000), respectively.

As at 31 December 2015, the bank and cash balances of the Group's associate in the PRC denominated in RMB amounted to HK\$544,000 (2014: HK\$1,344,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

24. Interests in Joint Ventures

	2015 HK\$'000	2014 HK\$'000
Unlisted shares, at cost		
Share of net assets	–	–

During the year, the Company acquired further 40% shareholding in the joint ventures, which became subsidiaries.

25. Inventories

	2015 HK\$'000	2014 HK\$'000
Raw materials	599	1,149
Work-in-progress	1,511	158
Finished goods	3,933	5,420
	6,043	6,727
Reclassified as held-for-sale	–	270
	6,043	6,997

26. Gross amount due from Customers for Contract Work

	2015 HK\$'000	2014 HK\$'000
Contract costs incurred plus recognised profits		
less recognised losses to date	19,671	18,022
Less: Progress billings	(7,917)	(8,383)
	11,754	9,639
Gross amount due from customers for contract work	11,754	9,639
Gross amount due to customers for contract work	–	–
	11,754	9,639

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

27. Trade and Other Receivables

	2015 HK\$'000	2014 HK\$'000
Trade receivables	36,905	26,457
Less: allowance for doubtful debts	(11,992)	(231)
	24,913	26,226
Other receivables	33,072	17,074
Trade deposits	79	512
Prepayments and deposits	10,804	3,403
	68,868	47,215
Reclassified as held-for-sale	–	4,455
	68,868	51,670

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

Trade receivables are due in accordance with contract terms or within 2 months from the date of billing.

At 31 December 2015, the carrying amounts of the Group's trade receivables of HK\$24,913,000 (2014: HK\$ HK\$16,971,000), including those classified as part of a disposal group as held-for-sale, are denominated in RMB.

As at 31 December 2015 and 2014, the ageing analysis of the trade receivables, including those classified as part of a disposal group as held for sale, based on the invoice date, and net of allowance were as follows:

	2015 HK\$'000	2014 HK\$'000
Within 2 months	11,102	9,566
More than 2 months but within 3 months	1,638	298
More than 3 months but less than 12 months	3,438	15,783
More than 12 months	8,735	2,724
	24,913	28,371

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

27. Trade and Other Receivables (Continued)

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

As of 31 December 2015, trade receivables of HK\$4,608,000 (2014: HK\$14,129,000) were past due but not impaired. These relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believed that no impairment allowance was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable. The Group did not hold any collateral over these balances. The ageing analysis of these trade receivables is as follows:

	2015 HK\$'000	2014 HK\$'000
Neither past due nor impaired	20,305	14,242
Less than 1 month past due	1,003	–
More than 2 months but within 3 months past due	10	–
More than 3 months but less than 12 months past due	–	11,405
More than 12 months past due	3,595	2,724
	24,913	28,371

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.

As at 31 December 2015, trade receivables of the Group amounting to HK\$11,992,000 (2014: HK\$231,000) were individually determined to be impaired. The individually impaired receivables were outstanding for more than 12 months at the end of the reporting period.

Movements in the allowance for doubtful debts

	2015 HK\$'000	2014 HK\$'000
At 1 January	231	233
Allowance for the year	11,774	–
Exchange adjustments	(13)	(2)
At 31 December	11,992	231

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

28. Financial Assets at Fair Value through Profit or Loss

	2015 HK\$'000	2014 HK\$'000
Listed equity securities in Hong Kong, at fair value	99	140

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

29. Restricted and Pledged Bank Deposits and Cash and Cash Equivalents

	2015 HK\$'000	2014 HK\$'000
Restricted and pledged bank deposits (<i>note</i>)	4,284	16,326
Cash and bank balances	25,156	7,879
	29,440	24,205
Reclassified as held-for-sale	–	1,628
	29,440	25,833

At 31 December 2015, the bank deposits and cash and bank balances of the PRC's subsidiaries denominated in RMB amounted to HK\$21,867,000 (2014: HK\$13,226,000). The RMB is not freely convertible into other currencies. However, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Bank balances carry interest at market rates which range from 0.0001% to 3.95% (2014: 0.0001% to 1.35%) per annum. The bank balances and bank deposits are deposited with creditworthy banks with high credit ratings.

Note: At 31 December 2015, the restricted deposit of the Group amounting to HK\$Nil (2014: HK\$9,396,000) was to be used for the repayments of trade payables under banker's consent.

The pledged deposit of the Group amounting to HK\$4,284,000 (2014: HK\$6,300,000) is pledged to banks to secure banking facilities granted to the Group as set out in note 32 to the consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

30. Assets classified as held for sale

As described in note 15, the Group has disposed of its wastewater treatment plant project on a BOT basis in February 2015. The consideration of the disposal is higher than the aggregate carrying amount of the related assets and liabilities. Therefore, no impairment loss was recognised neither on reclassification of the assets and liabilities as held for sale, nor as at 31 December 2014. The major classes of assets and liabilities of the BOT project at 31 December 2014 are as follows:

	2014 HK\$'000
Property, plant and equipment	286
Operating concessions	250,259
Inventories	270
Trade receivables	2,145
Other receivables and deposits	2,310
Cash and bank balances	1,628
Assets of BOT project classified as held for sale	256,898
Trade and other payables	23,322
Deferred tax liabilities	16,998
Bank loans	99,540
Liabilities of BOT project associated with assets classified as held for sale	139,860
Net assets of BOT project classified as held for sale	117,038

At 31 December 2014, the income stream of the operating concessions of the Group with a carrying amount of approximately HK\$250,259,000 were pledged to secure the bank loans granted to the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

31. Trade and other payables

	2015 HK\$'000	2014 HK\$'000
Trade payables	19,464	18,861
Other payables	34,186	25,830
Advanced proceeds from disposal of business	–	63,000
Amount due to non-controlling interests	1,533	1,341
Amount due to a former subsidiary	5,189	–
Sales deposits received	16,415	244
	76,787	109,276
Reclassified as held-for-sale	–	23,322
	76,787	132,598

The amount due to non-controlling interests of HK\$833,000 (2014: HK\$1,341,000) was unsecured, interest-bearing at a fixed rate of 15% per annum and repayable within one year. The remaining amount due to non-controlling interests of HK\$700,000 (2014: HK\$Nil) was unsecured, interest-free and has no fixed term of repayment.

The ageing analysis of the trade payables, including those classified as part of a disposal group as held for sale, based on the date of receipt of goods/services, is as follows:

	2015 HK\$'000	2014 HK\$'000
Within 1 month	6,017	4,090
After 1 month but within 3 months	4,435	1,344
After 3 months but within 6 months	178	10,776
After 6 months but within 1 year	2,999	710
After 1 year	5,835	16,941
	19,464	33,861

At 31 December 2015, the carrying amounts of the Group's trade payables of HK\$19,464,000 (2014: HK\$24,465,000), including those classified as part of a disposal group as held-for-sale, are denominated in RMB.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

32. Borrowings

The analysis of the carrying amount of borrowings is as follows:

	2015 HK\$'000	2014 HK\$'000
Bank loans <i>(note (a))</i>	10,710	12,474
Entrusted loan <i>(note (b))</i>	59,500	63,000
Bonds <i>(note (c))</i>	17,450	–
Other borrowings	–	252
	87,660	75,726
Reclassified as held for sale	–	99,540
Total borrowings	87,660	175,266
The borrowings other than those reclassified as held for sale are repayable as follows:		
Within one year	70,210	12,726
In second year	–	63,000
In the third to fifth years, inclusive	17,450	–
	87,660	75,726
<i>Less:</i> Amount due for settlement within 12 months (shown under current liabilities)	(70,210)	(12,726)
Amount due for settlement after 12 months	17,450	63,000

The carrying amounts of all borrowings are denominated in RMB, except the bonds are denominated in HKD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

32. Borrowings (Continued)*Notes:*

- (a) The effective interest rates (which also equal contractual interest rates) on the Group's fixed rate bank loans of HK\$10,710,000 (2014: HK\$12,474,000) ranged from 4.29% to 7.80% (2014: 5.76% to 7.94%) per annum.

As at 31 December 2015 and 2014, the bank loans were secured by:

- (i) the pledge over bank deposits; and
- (ii) corporate guarantees given by the Company.
- (b) On 19 March 2013, Shenzhen CETH Environmental Technology Co., Ltd., a wholly-owned subsidiary, entered into an entrusted loan agreement with an independent third party through commissioning a bank to borrow a loan of RMB50,000,000 for a period of three years from 23 April 2013 to 22 April 2016. The loan is secured by a guarantee from the Company. As at 31 December 2015, the effective interest rate of the entrusted loan (which also equals contractual interest rate) was 12% (2014: 12%) per annum.
- (c) During the year, the Group issued four unlisted straight bonds to four independent investors in an aggregate principal amount of HK\$17,450,000 (the "Bonds"). The Bonds are unsecured, arranged at fixed interest rates of 7% per annum and redeemed in full upon the maturity, i.e. four years from the date of issue.

33. Deferred Revenue

During the year ended 31 December 2014, the Group disposed of three machineries at proceeds of HK\$10,710,000, and leaseback these machineries under a 3-years term finance lease. The deferred revenue arises from this sale and lease back transaction of machineries, the excess of sales proceeds over the carrying amount of HK\$1,796,000 has been deferred and amortised over the lease term.

	2015 HK\$'000	2014 HK\$'000
Analysed as:		
Current liabilities	565	599
Non-current liabilities	236	848
	801	1,447

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

34. Finance Lease Payables

	Minimum lease payments		Present value of minimum lease payments	
	2015 HK\$'000	2014 HK\$'000	2015 HK\$'000	2014 HK\$'000
Within one year	3,807	4,032	3,496	3,430
In the second to fifth years, inclusive	1,904	6,047	1,850	5,660
<i>Less: Future finance charges</i>	5,711 (365)	10,079 (989)	5,346 N/A	9,090 N/A
Present value of lease obligations	5,346	9,090	5,346	9,090
<i>Less: Amount due for settlement within 12 months (shown under current liabilities)</i>			(3,496)	(3,430)
Amount due for settlement after 12 months			1,850	5,660

It is the Group's policy to lease certain of its plant and machinery under finance leases. The average lease term is 3 years. At 31 December 2015, the average effective borrowing rate was 7.69% (2014: 7.69%). Interest rates are fixed at the contract dates and thus expose the Group to fair value interest rate risk. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. At the end of each lease term, the Group has the option to purchase the plant and machinery at nominal prices.

All finance lease payables are denominated in RMB.

The Group's finance lease payables are secured by the lessor's title to the leased assets.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

35. Deferred Tax

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

	Operating concession	Intangible assets	Revaluation of leasehold land and buildings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2014	17,809	1,550	865	20,224
Credited to profit or loss (<i>notes 13 and 15</i>)	(671)	(84)	–	(755)
Charged to other comprehensive income	–	–	748	748
Exchange adjustments	(140)	(12)	–	(152)
At 31 December 2014 and 1 January 2015	16,998	1,454	1,613	20,065
Credited to profit or loss (<i>notes 13 and 15</i>)	(68)	(276)	–	(344)
Credited to other comprehensive income	–	–	(193)	(193)
Disposal of a subsidiary	(16,930)	–	–	(16,930)
Exchange adjustments	–	(71)	–	(71)
At 31 December 2015	–	1,107	1,420	2,527

The following is the analysis of the deferred tax balances (after offset) for statement of financial position purposes:

	2015 HK\$'000	2014 HK\$'000
Deferred tax liabilities	2,527	3,067
Deferred tax liabilities associated with assets held for sale	–	16,998
	2,527	20,065

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

35. Deferred Tax (Continued)

As at 31 December 2015, the Group had estimated tax losses of HK\$145,856,000 (2014: HK\$107,532,000) attributable to the continuing operations in Hong Kong which are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised as it is not probable that future taxable profits against which the losses can be utilised will be available for the companies in which the losses arose. The tax losses do not expire under the current Hong Kong tax legislation. Tax losses of approximately HK\$122,198,000 (2014: HK\$92,239,000) attributable to the continuing operations in the PRC are available for offsetting against future profits that may be carried forward for five years for PRC enterprise income tax purpose.

As at 31 December 2015, temporary differences relating to the undistributed profits of subsidiaries amounted to HK\$5,043,000 (2014: HK\$24,278,000). Deferred tax liabilities of HK\$504,000 (2014: HK\$2,428,000) have not been recognised in respect of the tax that would be payable on the distribution of the retained profits of the Group's foreign-invested enterprises in the PRC as the Company controls the dividend policy of these foreign-invested enterprises and it is probable that such differences will not be reversed in the foreseeable future.

36. Share Capital

	Number of ordinary shares of HK\$0.025 per share	HK\$'000
	'000	
Authorised		
At 1 January 2014, 31 December 2014, 1 January 2015 and 31 December 2015	8,000,000	200,000
Issued and fully paid		
At 1 January 2014, 31 December 2014, 1 January 2015 and 31 December 2015	2,500,303	62,508

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

37. Statement of Financial Position and Reserve Movement of the Company

(a) Statement of financial position of the Company

	2015 HK\$'000	2014 HK\$'000
Non-current assets		
Property, plant and equipment	273	431
Investments in and loans to subsidiaries	81,095	111,362
	81,368	111,793
Current assets		
Other receivables	1,628	1,232
Cash and cash equivalents	7,508	1,462
	9,136	2,694
Current liabilities		
Trade and other payables	5,684	4,622
Amounts due to subsidiaries	81,095	65,036
	86,779	69,658
Net current liabilities	(77,643)	(66,964)
Total assets less current liabilities	3,725	44,829
Non-current liabilities		
Borrowings	17,450	–
	17,450	–
NET (LIABILITIES)/ASSETS	(13,725)	44,829
Capital and reserves		
Share capital	62,508	62,508
Reserves	(76,233)	(17,679)
(CAPITAL DEFICIENCY)/TOTAL EQUITY	(13,725)	44,829

Approved and authorised for issue by the board of Directors on 31 March 2016 and are signed on its behalf by:

Mr. Xu Zhong Ping
Director

Mr. Pan Yutang
Director

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

37. Statement of Financial Position and Reserve Movement of the Company (Continued)**(b) Reserve movement of the Company**

	Share premium HK\$'000	Share option reserve HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2014	162,813	18,508	59,063	(181,333)	59,051
Loss for the year	-	-	-	(76,730)	(76,730)
Transfer upon cancellation of share options	-	(18,508)	-	18,508	-
At 31 December 2014	162,813	-	59,063	(239,555)	(17,679)
Loss for the year	-	-	-	(58,554)	(58,554)
At 31 December 2015	162,813	-	59,063	(298,109)	(76,233)

38. Reserves**(a) Group**

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

(b) Nature and purpose of reserves**(i) Share premium and contributed surplus**

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

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

(ii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 4.5.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

38. Reserves (Continued)

(b) Nature and purpose of reserves (Continued)

(iii) Other reserves

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

(iv) Property revaluation reserve

Revaluation reserve has been set up and is dealt with in accordance with the accounting policies adopted for leasehold land and buildings in note 4.6. The revaluation reserve is not distributable to shareholders.

(v) Distributability of reserve

At 31 December 2015, the aggregate amount of reserves available for distribution to owners of the Company was HK\$Nil.

39. Notes to the Consolidated Statement of Cash Flows

(a) Acquisition of subsidiaries

On 3 February 2015, the Group acquired further 40% shareholding in joint ventures BCEC Group at nil consideration from Beijing Capital (Hong Kong) Ltd ("Beijing Capital"), but settled the shareholder loan of HK\$2,800,000 to Beijing Capital for BCEC Group.

Together with the existing 50%, the Group holds 90% equity interest of BCEC Group, and which become subsidiaries. The acquisition is to align the Group's continuous expansion of its strategy in its core principal activities, as BCEC Group was negotiating a new environment project on a BOT basis at the date of acquisition.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

39. Notes to the Consolidated Statement of Cash Flows (Continued)**(a) Acquisition of subsidiaries (Continued)**

The fair value of the identifiable assets and liabilities of the subsidiaries acquired as at the date of acquisition are as follows:

	HK\$'000
Net liabilities acquired:	
Property, plant and equipment	76
Inventories	1,178
Prepayment and other receivables	410
Bank and cash balances	1,337
Amounts due to shareholders	(1,512)
Other payables and accruals	(2,620)
	(1,131)
Non-controlling interests	113
Goodwill	3,818
	2,800
Satisfied by:–	
Cash	2,800
Fair value of equity interest in joint ventures, before the acquisition	–
	2,800
Net cash outflow arising on acquisition:	
Cash consideration paid	2,800
Cash and cash equivalents acquired	(1,337)
	1,463

The goodwill arising on the acquisition of BCEC Group is attributable to the anticipated profitability distribution to the Group from the potential new environmental project in the PRC.

If the acquisition had been completed on 1 January 2015, total Group revenue for the year from continuing operations would have been HK\$61,999,000, and loss for the year from continuing operations would have been HK\$71,057,000. The proforma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2015, nor is intended to be a projection of future results.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

39. Notes to the Consolidated Statement of Cash Flows (Continued)**(b) Disposal of a subsidiary**

As referred to in note 15 to the consolidated financial statements, on 17 February 2015 the Group has disposed of Fanhe Hulu, whose principal activity is wastewater treatment plant project under a BOT basis, at a total consideration of RMB102 million (equivalent to HK\$129 million).

Net assets at the date of disposal were as follows:

	2015 HK\$'000
Property, plant and equipment	182
Operating concessions	268,629
Inventories	275
Trade and other receivables	21,050
Cash and bank balances	4,386
Trade and other payables	(77,426)
Deferred tax liabilities	(16,930)
Bank loans	(71,820)
	128,346
Release of exchange reserve	(7,341)
Gain on a disposal of subsidiary	7,515
Total consideration	128,520
Consideration satisfied by: –	
Cash	128,520
Net cash inflow arising on disposal:	
Cash consideration received	128,520
Cash and cash equivalents disposed of	(4,386)
Advanced proceeds received previously	(63,000)
Final payment receivable	(25,200)
	35,934

40. Pledge of Assets

At 31 December 2015, the bank loans of the Group were secured by the Group's income stream from operating concessions with carrying amount of HK\$Nil (2014: HK\$250,259,000) and restricted and pledged bank deposits of HK\$4,284,000 (2014: HK\$16,326,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

41. Related Party Transactions

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

Key management personnel remuneration

Remuneration for key management personnel including amounts paid to the Company's Directors and all of the highest paid employees as disclosed in note 16, is as follows:

	2015 HK\$'000	2014 HK\$'000
Short-term employee benefits	8,258	8,085
Equity-settled share-based payment expenses	–	–
Post-employment benefits	–	–
	8,258	8,085

Total remuneration is included in "staff costs".

42. Commitments

- (a) At 31 December 2015, the Group had commitments in respect of capital expenditure outstanding but not provided for in the consolidated financial statements as follows:

	2015 HK\$'000	2014 HK\$'000
Contracted, but not provided for		
– Upgrade and construction of wastewater treatment plants under a service concession arrangement on a BOT basis	–	31,335
– Purchase of equipment	–	2,860
	–	34,195

- (b) At 31 December 2015, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2015 HK\$'000	2014 HK\$'000
Within 1 year	5,368	4,520
After 1 year but within 5 years	2,322	538
	7,690	5,058

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

43. Events after the Reporting Period

On 29 March 2016, the Group entered into a subscription agreement to issue convertible bonds in the aggregate principal amount of HK\$65 million.

44. Particulars of Subsidiaries

The following is a list of the principal subsidiaries at 31 December 2015:

Name of subsidiary	Place of incorporation/ business	Particulars of issued share capital/paid up registered capital	Proportion of ownership interest		Principal activities
			Direct	Indirect	
Beijing Jingrui Kemai Water Purification Technology Company Limited* 北京精瑞科邁淨水技術有限公司	PRC**	RMB10,000,000	-	100%	Development of water purification technology and wastewater treatment equipment trading
Great Champion Holdings Limited	Hong Kong	Ordinary share of HK\$1	-	100%	Trading business
Hunan Qifan Environmental Technology Co., Ltd.* 湖南啟帆環保科技有限公司	PRC**	RMB5,000,000	-	80%	Development of environmental protection related project
Shenzhen CETH Environmental Technology Co. Ltd.* 深圳中環科環保科技有限公司	PRC*	RMB10,357,000	-	100%	Development of environmental protection related project
Shenzhen Huaxin Zhongshui Protection Engineering Co., Ltd.* 深圳華信中水環保工程有限公司	PRC**	RMB10,824,000	-	51%	Development of environmental protection related project
Hunan Chezhou CETH Environmental Technology Co., Ltd.* 湖南郴州中環科環保科技發展有限公司	PRC**	RMB10,000,000	-	51%	Development of environmental protection related project
Yardway Development Limited	British Virgin Islands ("BVI")/Hong Kong	10,000 ordinary shares of US\$1 each	100%	-	Property holding
Beijing Capital Environment Construction Company Limited	Cayman Islands/ Hong Kong	2 ordinary shares of HK\$1 each	90%	-	Investment holding
Beijing Capital Environment Construction (Hong Kong) Company Limited 首創環保建設(香港)有限公司	Hong Kong	Ordinary share of HK\$1	-	90%	Investment holding
Beijing Shouqiang Innovative Environmental Protection Technology Co., Ltd.* 北京首強創新環保科技有限公司	PRC	Registered capital of HK\$6,000,000	-	90%	Provision of environmental consultancy services

* a wholly foreign owned enterprise

** a limited liability enterprise

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

SUMMARY OF PROPERTIES

For the year ended 31 December 2015

The following is a list of the Group's properties at 31 December 2015:

Leasehold properties in the PRC

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

FIVE YEAR FINANCIAL SUMMARY

	Year ended 31 December			9 months ended 31 December	Year ended 31 March	
	2015 HK\$'000	2014 HK\$'000	2013 HK\$'000	2012 HK\$'000	2012 HK\$'000	2011 HK\$'000
RESULTS						
Continuing operations						
Revenue	61,999	89,319	56,311	51,031	144,883	158,709
Loss from operations	(61,094)	(45,484)	(52,099)	(78,544)	(32,802)	(42,534)
Finance costs	(9,104)	(8,588)	(13,866)	–	–	(226)
Loss before tax	(70,198)	(54,072)	(65,965)	(78,544)	(32,802)	(42,760)
Income tax (expense)/credit	(687)	92	996	10,379	387	(917)
Loss for the year/period from continuing operations	(70,885)	(53,980)	(64,969)	(68,165)	(32,415)	(43,677)
Discontinued operations						
(Loss)/profit for the year/period from discontinued operations	(3,969)	(22,486)	–	2,880	(23,247)	–
Loss for the year/period	(74,854)	(76,466)	(64,969)	(65,285)	(55,662)	(43,677)
Attributable to:						
– Owners of the Company	(74,117)	(75,307)	(64,568)	(64,677)	(55,238)	(43,677)
– Non-controlling interests	(737)	(1,159)	(401)	(608)	(424)	–
Loss for the year/period	(74,854)	(76,466)	(64,969)	(65,285)	(55,662)	(43,677)
ASSETS AND LIABILITIES						
	As at 31 December			As at 31 March		
	2015 HK\$'000	2014 HK\$'000	2013 HK\$'000	2012 HK\$'000	2012 HK\$'000	2011 HK\$'000
Non-current assets	34,902	39,689	278,141	262,314	283,006	253,060
Net current (liabilities)/assets	(48,493)	78,230	(14,858)	2,499	44,632	96,684
Non-current liabilities	(22,063)	(72,575)	(138,334)	(81,627)	(79,293)	(60,092)
	(35,654)	45,344	124,949	183,186	248,345	289,652
Share capital	62,508	62,508	62,508	62,508	62,508	60,775
Reserves	(96,352)	(16,121)	62,638	120,480	185,035	228,877
Total equity attributable to owners of the Company	(33,844)	46,387	125,146	182,988	247,543	289,652
Non-controlling interests	(1,810)	(1,043)	(197)	198	802	–
Total (deficiency)/equity	(35,654)	45,344	124,949	183,186	248,345	289,652
Loss per share						
Basic	(2.96) cents	(3.01) cents	(2.58) cents	(2.59) cents	(2.27) cents	(1.90) cents
Diluted	(2.96) cents	(3.01) cents	(2.58) cents	(2.59) cents	(2.27) cents	(1.90) cents