中國水業集團有限公司*

CHINA WATER INDUSTRY GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 1129

Create For A Better Tomorrow

2015 Annual Report

*for identification purpose only

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Independent Non-Executive Directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

INVESTMENT COMMITTEE

Mr. Wang De Yin *(Chairman)*
Mr. Liu Feng
Mr. Lin Yue Hui
Mr. Liu Hui Quan
Mr. Li Jian Ping
Mr. Huang De Ping (Appointed on 21 July 2015)
Ms. Zeng Yuan Chun (Appointed on 18 January 2016)
Mr. Tang Hui Ping, Paul (Resigned on 31 May 2015)

COMPANY SECRETARY

Ms. Chu Yin Yin, Georgiana

AUTHORISED REPRESENTATIVES

Mr. Liu Feng
Ms. Chu Yin Yin, Georgiana

PRINCIPAL BANKERS

PRC

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

Hong Kong

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

LEGAL ADVISERS AS TO HONG KONG LAWS

Reed Smith Richards Butler
Robertsons Solicitors & Notaries
Johnny K.K. Leung & Co.

LEGAL ADVISERS AS TO CAYMAN ISLANDS LAWS

Conyers Dill & Pearman

COMPLIANCE ADVISOR

Halcyon Capital Limited

AUDITORS

Crowe Horwath (HK) CPA Limited

REGISTERED OFFICE

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR TRANSFER OFFICE

Union Registrars Limited
Suites 3301-04, 33/F
Two Chinachem Exchange Square
338 King's Road
North Point
Hong Kong (with effect on 5 April 2016)

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

CONTACTS

Telephone: (852) 2547 6382
Facsimile: (852) 2547 6629

WEBSITE

www.chinawaterind.com

STOCK

1129

	Year ended 31 December		
	2015	2014	Change
	HK$'000	*HK$'000*	*%*
Financial Results			
Revenue	**528,586**	507,963	4.06%
Gross profit	**185,020**	199,390	(7.21%)
(Loss) profit for the year	**(70,598)**	229,635	(130.74%)
(Loss) profit attributable to owners of the Company	**(97,497)**	203,622	(147.88%)
(Loss) earnings per share (HK cents)			
– Basic	**(6.56)**	16.50	(139.76%)
– Diluted	**(6.56)**	14.11	(146.49%)

	2015	2014	Change
	HK$'000	*HK$'000*	*%*
Financial Position			
Total assets	**2,621,663**	1,933,204	35.61%
Total liabilities	**969,104**	663,210	46.12%
Current assets	**1,225,550**	932,262	31.46%
Current liabilities	**713,794**	485,448	47.04%
Current ratio	**1.72 times**	1.92 times	(10.42%)
Cash and cash equivalents	**476,873**	324,066	47.15%
Gearing ratio	**36.97%**	34.31%	7.75%
Total net asset value	**1,652,559**	1,269,994	30.12%
Equity attributable to the Company's shareholders	**1,310,827**	939,577	39.51%
Equity attributable to the Company's shareholders per share (HK$)	**0.82**	0.71	15.49%

FIVE YEARS FINANCIAL SUMMARY

	2011 *HK$'000* (restated)	2012 *HK$'000* (restated)	2013 *HK$'000*	2014 *HK$'000*	**2015** ***HK$'000***
Results					
Revenue	266,117	327,885	510,959	507,963	**528,586**
Finance costs	(31,948)	(31,744)	(15,352)	(21,670)	**(8,842)**
(Loss) profit before taxation	(521,225)	81,920	152,657	291,410	**(50,658)**
Income tax expense	(13,425)	(35,998)	(46,697)	(61,775)	**(19,940)**
(Loss) profit for the year	(534,650)	45,922	105,960	229,635	**(70,598)**
Assets and liabilities					
Property, plant & equipment	97,250	111,733	161,433	159,310	**277,405**
Prepaid lease payments	43,002	41,629	41,381	25,110	**22,189**
Concession intangible assets	520,477	530,591	622,630	546,766	**549,083**
Investment property	–	17,390	21,037	21,457	**–**
Other intangible assets	10,292	10,292	59,763	176,111	**173,093**
Available-for-sale investments	53,959	68,439	95,781	26,016	**181,424**
Interest in associates	37,962	32,831	32,680	39,563	**74,660**
Other non-current assets	–	–	–	–	**20,711**
Deposit paid for acquisition of plant and equipment	–	5,663	272	5,282	**60,609**
Deposits paid for acquisition of subsidiaries	–	3,589	–	–	**29,843**
Deposit paid for acquisition of prepaid lease payments	–	–	40,701	–	**–**
Deferred tax assets	–	–	1,226	1,327	**7,096**
Net current (liabilities) assets	(167,390)	40,870	(39,225)	446,814	**511,756**
Total assets less current liabilities	595,552	863,027	1,037,679	1,447,756	**1,907,869**
Share capital	410,332	555,166	555,166	666,166	**798,270**
Reserves	(316,962)	(90,223)	(11,492)	273,411	**512,557**
Non-controlling interests	190,799	219,904	282,827	330,417	**341,732**
Bank borrowings due after one year	18,309	34,532	26,710	33,598	**103,852**
Other loans – due after one year	70,686	34,572	52,619	59,270	**79,627**
Convertible bonds – due after one year	138,568	–	–	–	**–**
Government grants	71,345	90,319	95,980	19,237	**17,256**
Deferred tax liabilities	12,475	18,757	35,869	65,657	**54,575**
	595,552	863,027	1,037,679	1,447,756	**1,907,869**
(Loss) earnings per share					
Basic	(139.11) cents	3.96 cents	5.53 cents	16.50 cents	**(6.56) cents**
Diluted	(139.11) cents	3.96 cents	5.53 cents	14.11 cents	**(6.56) cents**

The year 2015 was an extraordinary year for the Group. In the context of international economic downturn, we continued to grow and achieve stable increase in operating revenues with our pioneering and innovative spirit.

BUSINESS REVIEW

I. The water supply business reached a new level.

The Group's water supply business reinforced management and actively coordinated resources and relationships to lay a solid foundation for sustainable development of the projects. Among them, Yingtan Water Supply Co., Ltd ("**Yingtan Water**") completed its building, developed the tertiary industry and innovated the investment mode, with the profit ranking first among companies of the Group. Thanks to its standardized management, Linyi Fenghuang Water Supply Co., Ltd ("**Linyi Fenghuang**") broke away from business distress and stepped into a virtuous circle by attaining significant growth in both annual revenues and profits. The water rate of Yichun Water Industry Co., Ltd ("**Yichun Water**") was low, and the Company actively expanded the water market while waiting for a price adjustment by the government. Its project revenue was substantially increased and its year-on-year growth rate of annual profit ranked first among companies of the Group. Other water supply companies also grew stably with a year-on-year growth of profit compared with last year and were getting better.

II. The exploitation and sale of renewable energy business attained rapid development.

In 2015, we successfully signed the sale and purchase agreements and co-operation agreements acquiring 8 projects which are located in various provincial cities including Shaanxi, Guangxi, Sichuan, Hunan, Chongqing, Hainan and Guangdong. Currently, there are 16 projects distributed in 13 cities of 7 provinces and 1 municipality, including 4 biogas purification projects, 11 biogas power generation projects, and 1 garbage sorting projects. The annual designed household waste processing capacity will reach approximately 9.15 million tonne. A "one-stop" large-scale industrial chain covering landfill garbage collection, landfill gas purification compressed natural gas ("**CNG**"), and garbage sorting was formed. By virtue of our scientific operation and improved management, the exploitation and sale of renewable energy business is expected to bring greater profits to the Group in 2016.

III. The sewage treatment business maintained stable growth.

Currently, three companies under the Group are engaged in the sewage treatment business, namely, Yichun Fangke Sewage Treatment Company Limited* ("**Yichun Fangke**") (宜春市方科污水處理有限公司), Foshan City Gaoming Huaxin Sewage Treatment Company Ltd* ("**Gaoming Huaxin**") (佛山市高明區華信污水處理有限公司) and Jining City Haiyuan Water Treatment Company Limited* ("**Jining Haiyuan**") (濟寧市海源水務有限公司). Thanks to our hard work, these three companies have continuously contributed profit to the Group in 2015.

IV. The information system was modernized, specialized training was conducted for internal key management personnel, and internal management was greatly improved.

The deployment of a new financial system further enhanced the information-based financial works. The unified financial system of the Group laid a solid foundation for more efficient and effective financial management in the future.

The deployment of the Group's multifunctional information system embodies a big leap of the information-based system. It can provide various functions such as multi-site video conference, real-time production data collection for various companies and video call on the project scene, making works more efficient.

V. We attracted more attention to media reports and were reported by several well-known media. We participated in many environmental protection forums and exhibitions home and abroad and won a number of professional awards, including the "International Carbon-Value Award", "Company with Most Investment Value", "Energy Conservation and Environment Protection Award", and "Leading Company for Solid Waste Subdivision". As a result, the Group's visibility was improved and a professional image was created while being widely recognized by the industry.

In order to maintain the sustainable development of the Group and to address capital demands during the development, the Group took the initiative to develop a variety of financing channels, enhanced its capital strength, and actively prepared foreign currency for exchange rate depreciation of the RMB. In 2015, the Group signed financing agreements with multiple domestic and foreign commercial banks to provide sufficient funds for projects. As at December 31, 2015, the Group had HK$476.87 million cash on hand. The liabilities level and financial situation were sound. Businesses were developing vigorously and the competitive advantage was further enhanced.

PROSPECT AND PLANS

The year 2016 is the first year of the "13th Five-Year Plan". Although there will be many difficulties, we will also have more opportunities. The Group has made precise deployment, formulated key development strategies and detailed plans, and combined effective use of funds and internal management of resources in accordance with the "Four Key Points" to make the Group grow more robustly.

I. Endeavor to make water supply companies stronger. In the next three years, we will continuously improve the water treatment technology and provide quality services. At the same time, we will continue to acquire high-quality water resource projects.

With stable development and outstanding performance, the water supply business became the main source of profits to the Group in 2015. We have been working hard to keep urban residents healthy by improving water quality and providing quality services. In 2015, the Ministry of Construction of China promulgated a new "Water Quality Standards for Urban Water Supply" which posed higher requirements on quality of urban drinking water. The introduction and implementation of the new Standards further boosted technological progresses in China's urban water supply industry. In the Development Plan for the Urban Water Supply Industry for 2010 and Development Goals for 2020, the Ministry of Construction of China specifically requires local government authorities and water supply companies to strengthen protection of water supply sources, intensify pollution control efforts, improve the treatment processes, and accelerate water supply network transformation to meet requirements of the new standards requirement as soon as possible. The national encouragement policies bring us a broader space for development and a promising future.

Since the reform and opening up, China's economy developed rapidly. However, terrible water pollution was resulted. Currently, China has become one of the countries with large quantity and the highest increase rate in wastewater effluent. Due to limited capacity in sewage treatment, more than half of the sewage has been directly or indirectly discharged to rivers and lakes without prior treatment. This has caused serious pollution to water resources. According to investigation and statistics of the Environmental Protection Administration (the Ministry of Environmental Protection), the Ministry of Water Resources, and the Ministry of Housing and Urban-Rural Development, over 80% of the cities are polluted to varying degrees and nearly 70% of the water sources fail to meet the national standard. Such data further strengthens our resolution and confidence in making a contribution to governance of water pollution and developing the sewage business in China. In addition, the "Notice on Formulating and Adjusting the Sewage Treatment Fee Standard" implemented by the state specifies that full play should be given to the price as leverage and the sewage treatment fee standard should be reasonably formulated and adjusted to cause more social capital to actively participate in the construction and operation of sewage treatment facilities by means of franchise, government procurement of services and equity cooperation, so as to improve the sewage treatment capacity and operational efficiency. It fully proves that the Government encourages social capital and agrees with reasonable adjustment of the sewage treatment price standard. This will bring us opportunities to develop the sewage treatment business and enable us to move faster to make our dream "Making the World Endowed with Blue Sky, Green Earth, and Clear Water" come true.

In the next three years, we will move more rapidly to develop merged and new projects while continue to acquire quality water resource projects to provide urban residents with quality water and services. Executives of the Group will also make in-depth understanding of the problems and difficulties in the development of local companies and provide them with innovative solutions to ensure sustainable and healthy development of the companies.

II. Support the new energy sector to step into a new stage and hit historical highs in net profit.

The Group's solid waste business is rapidly developing. The investments of New China Water (Nanjing) Renewable Resources Investment Company Limited* (formerly known as Greenspring (Nanjing) Recycling Resources Investment Co., Ltd.) ("**New China Water (Nanjing)**") (新中水(南京)再生資源投資有限公司) are primarily focused on comprehensive utilization of urban household garbage. Currently, we are at the end of the "12th Five-Year Plan" and the beginning of the "13th Five-Year Plan" when new environmental protection policies are frequently introduced. The plan for the environmental protection industry is expected to be issued soon along with a number of investment opportunities. In view of the environmental industry market, China's solid waste treatment industry is still in an early stage of development and the solid waste treatment investment only accounts for less than 15% of the overall investments in the environmental protection industry. However, the solid waste treatment industry in developed countries is the largest sub-industry of the environmental protection field, accounting for over 50% of investments and output value in the field. Therefore, the solid waste industry will be promising in both existing demand and incremental demand. We will continue to acquire quality and sustainable projects home and abroad while boosting the existing domestic projects to a new level. We will further develop new energy businesses (including solar photovoltaic and wind power generation business) and focus on the "industrialization" of the environmental protection industry to achieve the business objective of highest net profit ever.

With policy support from the local government, New China Water (Nanjing) headquarters in Nanjing will construct the China Water New Energy Building to enhance the Group's professional image in new energy. The project company is located in Nanjing Kylin Technology Innovation Park, a convenient place close to the highway and high-speed rail station. The Kylin Technology Innovation Park is the only national smart city pilot park in Nanjing, the province's first provincial-level technology service demonstration area, the province's first batch of provincial-level triple play pilot park, and the only robot R&D base for CAST's HOME Program. The China Water New Energy Building will be constructed into a commercial complex giving priority to the academician workstation, training base of the renewable resources institute and cloud-based service platform and integrating the business and venture center, multimedia conference center, business hotel, sports center, and environmental protection and energy conservation building. When sufficient space for the Group to conduce new energy R&D is provided, the new energy real estate and property management business will be vigorously promoted. In addition, to cope with the speedy development of renewable energy business in PRC, the Group has planned to acquire a sizable and valuable lands to build its research and development centre and office building in Nanjing.

III. Coordinate the relationship between the Group and its subsidiaries, lay emphasis on cultivation of basic quality and ability of talents, and enable smooth communication and resource sharing at the Group level.

Development of the Group brings more and more subsidiaries. Therefore, it is very important to build a personnel training and internal control system to achieve more efficient and effective management. The Group-level smooth communication will enhance the overall risk control ability to a large extent. We will standardize and institutionalize management and business processes and leverage internal auditing and supervision to achieve the best balance among risk, cost and value during operation so as to provide basis and means for healthy and stable development of companies. We will provide a succession of professional training and enhancement for companies facing problems of inadequate internal management and defective financial system. We will strictly forbid violation of company regulations and laws to build a scientific and effective restriction and supervision system.

IV. Enhance internal management of companies, intensify employees' awareness of performance, and improve the incentive mechanism.

We will promote performance appraisal as a key form of value management of the Group. This is required when we need to adapt to market competition, achieve the Group's strategy, and improve the incentive mechanism. We will make the subsidiaries, departments and employees rationally define their objectives and tasks by means of signing letters of responsibility. In this way, they will take measures more actively and strive to fulfill the tasks arranged by the Group. We will provide definite rewards and punishments to further stimulate the enthusiasm of all employees. We will carry out all rewards to make staff at all levels feel our recognition and gratitude for their hard work and set a style of doing practical things for the Group.

Looking to the future, the Group will plan to develop Swan (Huizhou) Investment Company Limited ("**Swan (Huizhou)**") core businesses into a modern real estate investment business mainly focusing on the science and technology real estate development and construction and integrating property management, investment consulting and project planning. Huizhou is located in the Pearl River Delta economic zone. It faces Daya Bay in South China Sea and is close to Shenzhen and Hong Kong. The proposed project will be located in Huizhou Huicheng High-tech Industrial Park, with a total construction area of 74,730 square meters. The preliminary construction model for the aforesaid project will contain the Innovation and Technology Building, administrative service center, photovoltaic R&D center, comprehensive R&D test building, talent apartment, and No. 1 and No. 2 R&D office buildings. The comprehensive supporting facilities could fully meet the platform construction needs of SME incubators and effectively improve the organic composition of capital to enable companies to yield returns more rapidly with less investment. With the driving force from ongoing real estate development policies in China, this industry will recover in the coming years. The innovative model of "science and technology real estate" will be conducive to introduction of high-tech enterprises and talents. Its potential of growth is large as it is strongly recognized and supported by the local government. In addition, the urgent demand on environmental treatment, strong support from national policies, and market-oriented development will make China usher in another development climax of the environmental protection industry amidst rapid development of economic globalization and environmental globalization. We will integrate all available resources and accelerate acquisitions of quality projects and investment construction while strengthening management on existing projects companies to achieve profit goals so as to create a "professional, industrial and large-scale" image for the Group. We believe that in the near future, the Group's operating performance will embark on a new level.

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

Wang De Yin
Chairman and Chief Executive Officer

Hong Kong, 29 March 2016

* for identification purposes only

FINANCIAL REVIEW AND BUSINESS REVIEW

Financial Review

For the year ended 31 December 2015, the Group has recorded a consolidated net loss of HK$70.60 million (2014: consolidated net profit of HK$229.64 million). There was a substantial decrease in profit of HK$300.24 million. Comparing with the financial results of 2014, the Board considered that despite the Group recorded the increase of other operating income by HK$21.28 million, increase of profit sharing from associates by HK$7.27 million, the reversal of impairment loss on an associate of HK$33.54 million and the decrease of income tax by HK$41.84 million which made positive contributions to the Group's financial performance, notwithstanding, as a result of the following factors, including but not limited to (i) absence of one-off gain on disposal of subsidiaries of HK$116.78 million which occurred in 2014; (ii) the increase of net loss on financial assets at fair value through profit or loss of HK$185.38 million and the increase of impairment loss on available-for-sale investments of HK$42.18 million as a result of the volatile stock market condition in Hong Kong in the second half of 2015; (iii) a substantial decrease in change in fair value of derivative financial instruments by HK$31.44 million due to convertible bonds being fully repaid in 2014 and 2015; and (iv) a substantial decrease of HK$27.93 million arising from gain on disposal of available-for-sale investments, the Group recorded significant deterioration in its financial performance in 2015.

Revenue and Gross Profit

The revenue and gross profit for the year ended 31 December 2015 were HK$528.59 million and HK$185.02 million respectively. These represented a slight growth of 4.06% in revenue and a drop of 7.21% in gross profit in comparison with the corresponding period of 2014. The disposal of the entire equity interests of Anhui Dang Shan Water Industry Company Limited* (安徽省碭山水業有限公司) ("**Dang Shan**") and 70% of equity interest of Super Sino Investment Limited ("**Super Sino**") together with its various wholly-owned subsidiaries ("**Super Sino Group**") had made both Group's total revenue and total gross profit to decrease despite Zhu Zhou Biogas project and Shenzhen Xiaping Landfill Site project started to provide positive contribution to the Group. During the year under review, the main revenue contributors were Yichun Water and Yingtan Water, which collectively accounted for 40.60% of the revenue and 47.46% of the gross profit. The summary of revenue and gross profit is as follows:

	Revenue				**Gross Profit**			
	2015		2014		**2015**		2014	
	HK$'M	***% to total revenue***	*HK$'M*	*% to total revenue*	***HK$'M***	***% to total gross profit***	*HK$'M*	*% to total gross profit*
Water supply business	**119.06**	**22.52**	159.22	31.34	**49.02**	**26.49**	63.92	32.06
Sewage treatment business	**48.38**	**9.15**	45.76	9.01	**19.75**	**10.67**	20.50	10.28
Construction services business	**294.57**	**55.73**	283.29	55.77	**101.05**	**54.62**	109.39	54.86
Exploitation and sale of renewable energy business	**66.58**	**12.60**	19.69	3.88	**15.20**	**8.22**	5.58	2.80
Total	**528.59**	**100**	507.96	100	**185.02**	**100**	199.39	100

Other operating income

For the year ended 31 December 2015, other operating income was HK$52.27 million (2014: HK$30.99 million). The increase of other operating income by HK$21.28 million was mainly attributable to dividend income from investment and government grant. Other income comprised mainly interest income of HK$7.89 million, consultancy fee income of HK$12.54 million for the provision of advisory services on sewage treatment monitoring control system, dividend income from investments of HK$10.43 million, VAT refund of HK$5.28 million and government grant of HK$6.22 million.

Reversal of impairment loss recognised on an associate

The reversal of impairment loss of HK$33.54 million (2014: Nil) was related to Jinan Hongquan Water Production Co. Ltd (濟南泓泉制水有限公司) ("**Jinan Hongquan**") whose business activity is the provision of water supply service. The reversal was due to the recovery of Jinan Hongquan's recoverable amount, resulting from the increase in water tariff in Jinan Hongquan effective in May 2015.

Net loss on financial assets at fair value through profit or loss

Included in net loss on financial assets at fair value through profit or loss of HK$90.63 million comprised (i) HK$30.40 million for the fair value loss on investment funds; (ii) HK$15.27 million for the realised gain on disposal of listed equity securities and investment fund; and (iii) HK$75.50 million for the loss arising from the change in fair value of listed securities (2014: net gain of HK$94.75 million). In 2014, the Company invested in total of HK$105 million into two unlisted United States dollar ("**US$**") based investment funds ("**Funds**") including HK$75 million of Fund A ("**Fund A**") and HK$30 million of Fund B ("**Fund B**") respectively. The Funds primarily invest in listed securities in the Asian market. The fair value of these unlisted financial assets are based on the net asset value ("**NAV**") of the Funds calculated on the last day of each calendar month and reported by the fund manager accordingly. The change in fair value on these financial assets of HK$30.40 million was solely on the loss of the NAV of the Fund A. During the year, the Company requested the fund manager to redeem Fund B in whole. Subsequent to the year ended, the Company sold the benefit and right of redemption income of Fund B to an independent third party and recognized a gain on disposal. In view of the recent volatile stock market performance in second half of 2015, the fair value of certain listed securities below its costs, the fair value loss amounting to HK$75.50 million has been recognized. The fair value of the listed securities are determined based on the quoted market bid prices available on the Stock Exchange. The Funds and listed equity securities are held for trading purpose and classified as current assets of the Group. The Group will continue to monitor the performance of its investments cautiously due to recent uncertain market conditions.

Selling and distribution expenses and administrative expenses

For the year ended 31 December 2015, selling and distribution expenses together with administrative expenses were collectively slid by HK$4.35 million from HK$175.59 million in 2014 to HK$171.24 million in 2015 mainly due to absence of license fees for intangible assets of HK$3 million paid in 2014. These expenses mainly consisted of staff costs of HK$94.92 million, legal and professional fees of HK$4.85 million, rent and rates of HK$6.71 million, repairs and maintenance of HK$2.15 million and depreciation of HK$8.69 million.

Net gain on disposal of available-for-sale investments

Included in net gain on disposal of available-for-sale investments ("**AFS**") of HK$12.72 million (2014: HK$40.65 million) was HK$12.66 million for the disposal of investments in Yingtan Water City Trillion Property Company Limited* ("**Yingtan Trillion Property**") (鷹潭市中兆置業有限公司) and HK$0.06 million of gain on disposal of listed equity securities in Hong Kong.

Impairment loss recognized on AFS

Included in impairment loss recognized on AFS of HK$58.54 million (2014: HK$16.35 million) was HK$53.75 million for the fair value loss on investment fund and HK$4.79 million for the loss arising from the change in fair value of listed securities. In 2015, the Company invested HK$80 million into an unlisted US$ based investment fund ("**Fund C**"). The basis of calculating the fair value of Fund C NAV is the same as the foregoing Funds. Due to a significant and prolonged decline in the fair value of AFS at the end of reporting period below its costs, impairment losses amounting to HK$58.54 million have been recognised during the year which was reclassified from the investment revaluation reserve.

Finance costs

For the year ended 31 December 2015, the finance costs of the Group were HK$8.84 million, representing a decrease of HK$12.83 million from HK$21.67 million for the same period of last year. The decrease was mainly due to the redemption of convertible bonds ("**CB**") upon maturity in October 2014 and January 2015. The finance costs included mainly interest on other loans of HK$5.86 million.

Impairment loss on goodwill, property, plant and equipment, concession intangible assets and other intangible assets

The impairment loss on goodwill, property, plant and equipment, concession intangible assets and other intangible assets of the Group for the 2015 recorded HK$4.07 million (2014: HK$6.96 million), HK$1.62 million (2014: nil), HK$6.38 million (2014: nil) and HK$0.87 million (2014: nil) respectively, which were provided for Jining Haiyuan project, Gaoming Huaxin project and Zhuzhou project of HK$3.07 million, HK$6.64 million and HK$3.23 million respectively. During the year, the revenue and/or gross profit margin of Jining Haiyuan project, Gaoming Huaxin project and Zhuzhou project were reduced as compared to 2014. The reduction was mainly attributable to (i) the decrease in sewage treatment rate per tonne of Jining Haiyuan project and Gaoming Huaxin project; and (ii) the on-grid electricity rate per kilowatt charged by Zhuzhou project dropped. As a result, the recoverable amounts of these cash generating units decreased.

Share of results from associates

The Group had three associated companies, including 35% equity interests in Jinan Hongquan, 30% equity interests in Super Sino Group and 10% equity interests in Yu Jiang Hui Min Small-Sum Loan Company Limited ("**Yu Jiang Hui Min**"). For the year ended 31 December 2015, the Group shared the profit of HK$7.33 million (2014: HK$0.06 million) which included the profit of HK$2.85 million from Jinan Hongquan, the profit of HK$5.04 million from Super Sino Group and the loss of HK$0.56 million from Yu Jiang Hui Min.

Income tax

Income tax expense represents income tax payable by the Group under relevant income tax rules and regulations where the Group operates. Income tax expense consists of current income tax and deferred income tax. Current income tax consists of PRC enterprise income tax at a rate of 25% that the PRC subsidiaries of the Group pay on their taxable income. Hong Kong profits tax is calculated at 16.5% of the estimated assessable profits for our subsidiaries in Hong Kong. Deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. Income tax expense decreased by HK$41.84 million to HK$19.94 million (2014: HK$61.78 million). The decrease was primarily due to PRC tax on gain on disposal of Super Sino Group which occurred in 2014 and the Hong Kong profits tax on gain on financial assets at fair value through profit or loss in 2014. As of 31 December 2015, the Group had fulfilled all its tax obligations and did not have any tax disputes.

Loss attributable to Owners of the Company

For the year ended 31 December 2015, loss attributable to owners of the Company was HK$97.50 million (2014: profit of HK$203.62 million), a substantial decrease in profit of HK$301.12 million primarily due to the negative change in fair value of financial assets through profit or loss and impairment loss recognized on AFS.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2015, the Group recorded cash and bank balance including cash held at financial institutions of HK$476.87 million (compared with HK$324.07 million on 31 December 2014). The increase was mainly due to placing of new shares and borrowing of loans. With the steady cash flows, the Group will have sufficient working capital to meet its financial obligations in full as they fall due in the foreseeable future. The cash and bank balance were denominated in Hong Kong dollars and Renminbi.

The net current assets for the Group in 2015 were HK$511.76 million (2014: net current assets of HK$446.81 million). The current ratio (current assets over current liabilities) is 1.72 times (2014: 1.92 times) as at 31 December 2015.

Net asset value was HK$1,652.56 million (2014: HK$1,269.99 million). Net asset value per share was HK$1.04 (2014: HK$0.95), increased by 9.47% from the end of 2014.

The Group's consolidated non-current assets as at 31 December 2015 increased by HK$395.17 million to HK$1,396.11 million (compared with HK$1,000.94 million on 31 December 2014) which was mainly due to the increase in AFS and acquisition for property, plant and equipment.

As at 31 December 2015, the financial assets at fair value through profit or loss of the Company decreased by HK$18.47 million to HK$220.06 million (2014: HK$238.53 million). The reduction was due to the decrease in NAV of Funds and share price of certain equity securities listed in Hong Kong and disposal of Fund B and equity securities in the year. The portfolio investment comprised (i) HK$114.93 million of Fund A, including accumulated fair value gain of HK$39.93 million (2014: HK$179.27 million after increasing fair value gain of HK$74.27 million) and (ii) equity securities listed in Hong Kong of HK$105.13 million (2014: HK$59.26 million).

As at 31 December 2015, the AFS of the Company recorded at fair value of HK$181.42 million (2014: HK$26.02 million). The increase was due to investment of Fund C and additional investments in equity securities listed in Hong Kong acquired by the Company. The portfolio investments comprised (i) equity securities listed in Hong Kong of HK$146.41 million (2014: HK$26.02 million) and the fair value of Fund C of HK$35.01 million (2014: nil).

Total liabilities of the Group as at 31 December 2015 were HK$969.10 million (compared with HK$663.21 million on 31 December 2014). Total liabilities mainly comprised of the bank and other borrowings of HK$416.47 million (2014: HK$155.75 million), deferred government grants of HK$17.26 million (2014: HK$19.24 million), trade and other payables of HK$306.04 million (2014: HK$157.95 million), amounts due to customers for contract works of HK$112.18 million (2014: HK$58.42 million), amounts due to non-controlling shareholders of HK$27.90 million (2014: HK$59.53 million) and deferred tax liabilities of HK$54.58 million (2014: HK$65.66 million). The increase of the new other loans included bonds with a principal amount of HK$200 million at a fixed coupon interest of 10% per annum from Prosper Talent Limited ("**Fixed-rate New Other Loan**"). Except for the following Fixed-rate New Other Loan denominated in HK$, borrowings were mainly denominated in Renminbi.

On 1 April 2015, the Company and Prosper Talent Limited entered into a Subscription Agreement in respect of the issuance of other loans with an aggregate principal amount of not more than HK$300 million at a fixed coupon interest of 10% per annum, comprising of the Series A Bond, Series B Bond and Series C Bond. Series A Bond and Series B Bond with an aggregate amount of HK$200 million, were issued on 9 April 2015 and 8 May 2015, respectively. This Fixed-rate New Other Loan will mature in one year from the date of issuance and were classified as short-term loans. The Company did not request for Series C Bond on or before 15 September 2015 and Series C Bond automatically lapsed thereafter.

As at 31 December 2015, the Group's total bank and other borrowings increased by HK$260.72 million to HK$416.47 million (2014: HK$155.75 million), mainly due to the Fixed-rate New Other Loan. For the maturity profile, refer to the table below:

	31 December 2015		31 December 2014	
	HK$'000	**%**	*HK$'000*	%
Classified by maturity				
– repayable within one year				
Bank borrowings	**29,007**	**6.97**	49,258	31.63
Other loans	**203,982**	**48.97**	13,619	8.74
	232,989	**55.94**	62,877	40.37
Classified by maturity				
– repayable more than one year				
Bank borrowings	**103,852**	**24.94**	33,598	21.57
Other loans	**79,627**	**19.12**	59,270	38.06
	183,479	**44.06**	92,868	59.63
Total bank and other borrowings	**416,468**	**100**	155,745	100
Classified by type of loans				
Secured	**123,309**	**29.61**	50,518	32.44
Unsecured	**293,159**	**70.39**	105,227	67.56
	416,468	**100**	155,745	100
Classified by type of interest				
Fixed rate	**259,196**	**62.24**	44,490	28.57
Variable-rate	**87,141**	**20.92**	62,014	39.81
Interest free rate	**70,131**	**16.84**	49,241	31.62
	416,468	**100**	155,745	100

The Group's gearing ratio as at 31 December 2015 was 36.97% (2014: 34.31%). The ratio was calculated by dividing total liabilities of HK$969.10 million over total assets of the Group of HK$2,621.66 million.

TRADE AND OTHER RECEIVABLES

As at 31 December 2015, the Group's trade and other receivables were approximately HK$305.61 million (31 December 2014: HK$171.68 million). These comprised of: (i) trade receivables of HK$35.68 million, (ii) other receivables of HK$72.73 million, (iii) deposits and prepayments of HK$139.90 million and (iv) loans receivables of HK$57.30 million. During the year under review, the trade receivables slightly increased by HK$5.43 million to HK$35.68 million (2014: HK$30.25 million). The average turnover period of the trade receivables as at 31 December 2015 were 26 days (2014: 26 days). The Group allows a credit period of 5 to 180 days to its customers. The average turnover period of the trade receivables fell within stipulated credit period. Other receivables increased by HK$61.29 million to HK$72.73 million (2014: HK$11.44 million) which mainly included (i) a net receivable of HK$36.0 million from the disposal of investments in Fund B (ii) a receivable of HK$14.00 million from the disposal of investment in a property development company named Yingtan Trillion Property. The deposits and prepayments substantially increased by HK$113.21 million to HK$139.90 million (2014: HK$26.69 million) which mainly included prepayments and tender deposits of HK$78.04 million paid to independent third parties for construction projects and material procurement deposit of HK$47.75 million. Loans receivables increased by HK$42.30 million to HK$57.30 million (2014: HK$15 million) were loans to two unrelated parties which bear fixed annual interest rate at 36%. Subsequent to 31 December 2015, the material procurement deposit was fully refunded due to cancellation of the purchase and the partial payment of HK$20 million for the disposal of Fund B was received. The tender deposits, other receivables and loan receivables are still outstanding subsequent to year-end.

INVENTORIES

As at 31 December 2015, inventories of HK$204.38 million (2014: HK$184.04 million) comprised of (i) properties under development for sale of HK$173.64 million, raw materials of HK$30.05 million and finished goods of HK$0.69 million. Properties under development for sale represented the construction of new commercial buildings for sale by Yingtan Xiang Rui Property Limited* (鷹潭祥瑞置業有限公司) ("**Xiang Rui Property**") at Yingtan, Jiangxi Province, the PRC, an indirect non wholly-owned subsidiary of the Company. The construction has commenced in February 2014 and is expected to be completed by the end of June 2016.

TRADE AND OTHER PAYABLES

As at 31 December 2015, the Group's trade and other payables were approximately HK$306.04 million (2014: HK$157.95 million). The credit terms of trade payables vary according to the terms agreed with different suppliers.

CAPITAL RAISING AND USE OF PROCEEDS

PLACING OF NEW SHARES OF THE COMPANY

On 26 May 2015, the Company entered into the subscription agreement with 5 subscribers ("**Subscribers**"), pursuant to which the Company agreed to issue and allot and the Subscribers agreed to subscribe an aggregate of 266,000,000 new ordinary shares at par value of HK$0.50 ("**Shares**"). The subscription price per Share is at HK$1.88. The Subscribers included Prosper Talent Limited, Outstanding Global Holdings Limited, Yue Xiu Great China Fixed Income Fund VI LP, Quantum Enhanced Fund and Yuxing Technology Company Limited. The Subscribers and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons (as defined in the Listing Rules), and independent of and not acting in concert (as defined in the Takeovers Code) with the Company and parties acting in concert with it. The Company considered that the Subscription offers a good opportunity to raise additional funds to strengthen the financial position and broaden the capital base of the Group, and to raise capital for possible future investments of the Group. The closing price of the Share as quoted on the Stock Exchange on 22 May 2015, being the last trading day prior to the date of the Subscription Agreement, was HK$2.31 per Share. The closing price of the Share as quoted on the Stock Exchange on 26 May 2015, being the date of the Subscription Agreement, was HK$2.30 per Share. The average closing price as quoted on the Stock Exchange for the last five consecutive trading days prior to the date of the Subscription Agreement was HK$2.304 per Share. The transaction was completed on 2 June 2015 and 5 June 2015. After taking into account the share issue expenses of approximately HK$0.4 million, the net price raised per Share was about approximately HK$1.88. The Company planned to apply the net proceeds from the Subscription as to (i) approximately 10% for general working capital purpose; and (ii) approximately 90% for future business development and investment of the Group. The net proceeds of HK$499.70 million have been utilised by the Group as to (i) approximately HK$179.30 million for the increase in the registered share capital of New China Water (Nanjing), an indirect wholly-owned subsidiary of the Company; (ii) approximately HK$135.10 million for the registered share capital of Swan (Huizhou), an indirect wholly-owned subsidiary of the Company; (iii) approximately HK$80 million for the investment of listed equity securities; and (iv) approximately HK$61.16 million for general working capital of the Group including office operating expenses, loan interest payments and tax payments. The remaining unutilised net proceeds are held in banks for future use as intended.

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

During the year, the Group incurred capital expenditures amounting to HK$59.60 million (2014: HK$57.99 million) for acquisition of concession intangible assets.

BUSINESS REVIEW

2015 was the last year of China's development under the "12th Five-Year Plan" and a year with an "explosion" of environmental protection policies. The PRC government promulgated a series of policies to support the environmental protection industry, attaching the utmost importance to air, water and soil pollution control as well as the construction of ecological civilization. As China accelerates into comprehensive reform, pushing toward a new growth model focusing on green, low-carbon and continuous improvement of people's livelihood, China's green economy and environmental protection industry are set to embrace an unprecedented opportunity for long-term growth. In recent years, the Group has diversified its business into renewable energy business so as to thrive in an industrial environment filled with these huge opportunities. 8 projects were newly signed in 2015 for renewable energy business. Upon the commencement of operation of these projects, addition new source of income will bring to the Group.

2016 marks the first year of China's 13th Five-year Plan. A number of issues, such as the imbalance of rural and urban development and an increasing shortage of resources and ecological degradation have not seen significantly improvement. These will pose challenges as well as immense opportunities in the next five years. The main goal and overall philosophy of economic and social development during the 13th five-year period is to improve eco-environmental quality and advocate the theme of green for ensuring lasting development as well as an important way in which people pursue a better quality of life. The adoption of green and low-carbon production mode and lifestyle will be increased. Efficiency of the development and utilization of energy resources will be improved significantly. The consumption of energy and water resources, construction of land, and carbon emission will be effectively reduced. These have accelerated the need to construct a comprehensive ecological civilization system generating large amounts of investment and growth potential for the environmental management and services market. To capture these huge opportunities and adhere to the Group's corporate vision "Making the World endowed with Clear Water, Blue Sky and Vivid Green Land", the Group has actively been exploring in the areas of environmental friendly renewable energy business through merger and acquisition and continue to invest more resources in water supply and sewage treatment businesses.

Water supply business

There are 5 city water supply projects of the Group (including 2 water supply projects of associated companies) well spread in various provincial cities and regions across China, including Jiangxi, Shandong and Hainan (2014: 6 water supply projects). The daily aggregate water supply capacity was approximately 1.91 million tonne (including the capacity of 1.60 million tonne of two associated companies). The revenue and gross profit from water supply business amounted to HK$119.06 million and HK$49.02 million respectively, representing 22.52% and 26.49% of the Group's total revenue of HK$528.59 million and total gross profit of HK$185.02 million respectively. The overall gross profit ratio was 41.17% (2014: 40.15%). The rates for the water supply ranged from HK$1.50 to HK$2.26 per tonne.

Analysis of water supply projects on hand is as follows:

	Project name	Equity interest held by the Company (%)	Designed daily capacity of water supply (tonne)	Provincial cities in PRC	Exclusive operating right (expiry in)
1	Yichun Water	51	160,000	Jiangxi	2034
2	Yingtan Water Supply	51	100,000	Jiangxi	2038
3	Linyi Fenghuang	60	50,000	Jiangxi	2037
4	Jinan Hongquan	35	1,500,000	Shandong	2036
5	Super Sino Group	30	100,000	Hainan	2037
	Total		1,910,000		

Sewage treatment business

There are 3 sewage treatment projects of the Group located in Jiangxi, Guangdong and Shandong provinces (2014: 3 sewage treatment projects). The daily aggregate sewage disposal capacity was approximately 150,000 tonne (2014:130,000 tonne) generating a revenue of HK$48.38 million and gross profit of HK$19.75 million, representing 9.15% and 10.67% of the Group's total revenue of HK$528.59 million and total gross profit of HK$185.02 million respectively. The gross profit ratio was 40.82% (2014: 44.80%). The rates for sewage treatment ranged from HK$0.70 to HK$1.62 per tonne.

Analysis of sewage treatment projects on hand is as follows:

	Project name	Equity interest held by the Company (%)	Designed daily sewage disposal capacity (tonne)	Provincial cities in PRC	Exclusive operating right (expiry in)
1	Jining Haiyuan	70	30,000	Shandong	2036
2	Gaoming Huaxin	70	20,000	Guangdong	2033
3	Yichun Fangke	54.33	100,000	Jiangxi	2031
			150,000		

Construction services for water supply and sewage treatment infrastructure

Construction services included water meter installation, infrastructure construction and pipeline construction and repair. The projects mainly located in provincial cities of Jiangxi and Shandong. These were the Group's major sources of revenue and gross profit contributing HK$294.57 million and HK$101.05 million respectively, representing 55.73% and 54.62% of the Group's total revenue of HK$528.59 million and total gross profit of HK$185.02 million respectively. The overall gross profit ratio was 34.30% (2014: 38.61%).

Exploitation and sale of renewable energy business

As at 31 December 2015, the Group has successfully secured 8 biogas power generation projects which are located in various provincial cities across China including Jiangsu, Hunan and Guangdong. These projects add a total of designed annual household waste processing capacity of 4.74 million tonne and could extract biogas from the household waste of 158.28 million m^3 annually which in turn could annually generate 116.56 million kilowatt-hour of on-grid electricity and 57.40 million m^3 of CNG. The revenue and gross profit generating from exploitation and sale of renewable energy business amounted to HK$66.58 million and HK$15.2 million respectively, representing 12.60% and 8.22% of the Group's total revenue of HK$528.59 million and total gross profit of HK$185.02 million respectively, which contributed from Nanjing Jiaozishan project, ZhuZhou Biogas project and Shenzhen Xiaping Landfill Site project from selling electricity to provincial power grid companies, and receiving tariff adjustment from relevant government authorities and selling CNG to external customers. Comparing with last year, the revenue and gross profit increased by HK$46.89 million and HK$9.62 million respectively. This was mainly because ZhuZhou Biogas project commenced full operation in 2015 and Shenzhen Xiaping Landfill Site project has started its operation in July 2015. The overall gross profit ratio was 22.83% (2014: 28.34%), the average electricity rate was HK$0.73 per kilowatt-hour and the average CNG rate was HK$2.83 per m^3.

Analysis of renewable energy projects on hand is as follows:

	Project name	Provincial cities in PRC	Business mode	Equity interest held by Company (%)	Annual designed household waste processing capacity (tonne)	Estimated annual biogas output (m^3)	Estimated annual On-grid electricity (kilowatt-hour)	Estimated annual CNG (m^3)	Actual/ Expected Commencement date of operation	Exclusive right to collect landfill gas expiry in
1	Nanjing Jiaozishan	Jiangsu	Power generation	100	584,000	9,400,000	18,800,000	–	October 2013	June 2025
2	ZhuZhou Biogas	Hunan	Power generation	100	365,000	9,400,000	18,800,000	–	November 2014	October 2023
3	Shenzhen Pingshan	Guangdong	Power generation	100	237,300	9,400,000	18,800,000	–	December 2015	September 2024
4	Changsha Operation Contract*	Hunan	Power generation	–	1,825,000	30,080,000	60,160,000	–	May 2014	October 2039
5	Changsha Qiaoyi Landfill Site*	Hunan	CNG	91		40,000,000	–	22,000,000	December 2015	
6	Shenzhen Xiaping Landfill Site	Guangdong	CNG	88	1,275,000	48,000,000	–	28,800,000	July 2015	April 2030
7	Liuyang Biogas	Hunan	CNG	100	200,800	4,000,000	–	2,200,000	June 2016	October 2038
8	Qingshan Landfill Site	Guangdong	CNG	100	255,500	8,000,000	–	4,400,000	January 2016	July 2024
					4,742,600	158,280,000	116,560,000	57,400,000		

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

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

During the year, the Group have successfully signed several sales and purchases agreements and/or co-operation agreement with the related parties to acquire and/or establish the following renewable energy projects.

	Project name	Note	Provincial cities in PRC	Business mode	Equity interest held by Company (%)	Annual designed household waste processing capacity (tonne)	Estimated annual biogas output (m^3)	Estimated annual On-grid electricity (kilowatt-hour)
1	Baoji	*i*	Shaanxi	Power generation	100	310,000	6,266,667	12,533,333
2	Wuzhou Landfill Project	*ii*	Guangxi	Power generation	100	182,000	7,520,000	15,040,000
3	Chengdu City	*iii*	Sichuan	Power generation	49	1,460,000	78,208,000	156,416,000
4	Chenzhou Environmental	*iv*	Hunan	Power generation	100	219,000	4,775,200	9,550,400
5	Huayin Heng Yang	*iv*	Hunan	Power generation	100	365,000	1,857,675	3,715,350
6	Chongqing Camda	*v*	Chongqing	Power generation	100	1,200,000	22,560,000	45,120,000
7	Hainan Camda	*v*	Hainan	Power generation	100	201,000	7,520,000	15,040,000
8	Shenzhen Weimin Ecological	*vi*	Guangdong	Garbage sorting	55	475,000	–	–
						4,412,000	128,707,542	257,415,083

(i) Baoji Project

On 3 August 2015, New China Water (Nanjing) entered into Sale and Purchase Agreement ("**S&P Agreement**") with Mr. Yu Gong Hung* (魚江鴻) and Mr Li Hoi Gong* (李海剛) (collectively known as "**Vendors**") to acquire the entire issued share capital of Baoji City Electric Power Development Co., Ltd*, (寶雞市易飛明達電力發展有限公司) ("**Baoji Project**") for a consideration of RMB12.23 million. Baoji Project includes (i) the operation of landfill gas power generator plant located in Baoji City landfill site, Shaanxi Province, the PRC and (ii) the operation of landfill gas emission-reduction plant which converts landfill gas into natural gas and electricity also located in Baoji City landfill site, Shaanxi Province, the PRC. Up to date of this report, as the conditions for completion have not been fulfilled by the Vendors, the Group has not paid any consideration and the acquisition is not completed.

(ii) Wuzhou Landfill Project

On 21 August 2015, New China Water (Nanjing), Wuzhou City Municipal and Landscape Garden Administration Bureau* (梧州市市政和園林管理局) ("**Wuzhou City Municipal**") and Wuzhou City Urban Waste Disposal Co., Ltd.* (梧州市城市廢棄物處理有限責任公司) ("**Wuzhou City Company**") entered into the development and operation agreement ("**Co-operation Agreement**") in relation to the comprehensive utilisation project of the landfill gas resources in respect of the household garbage landfill site in Wuzhou City. Wuzhou City Company is an entity under Wuzhou City Municipal and owns the corresponding rights of the land use right and garbage resources disposal right of the household garbage landfill in Wuzhou City. As agreed by Wuzhou City Municipal, it was decided to construct a comprehensive utilisation project for landfill gas resources at the existing garbage landfill site. New China Water (Nanjing) will establish a project company to develop the household garbage sanitation landfill site in Wuzhou City ("**Wuzhou Landfill Project**"). The term of the project development and operation is six years, commencing from the date of commercial operation of such project. Upon the expiry of the term of development and operation, it can be renewed for a term not exceeding 3 years. Starting from the date of the project is put into operation, on a monthly basis, New China Water (Nanjing) or the project company is required to pay Wuzhou City Company 5% of the sales revenue from its CNG products as resource utilisation fee. New China Water (Nanjing) is responsible for conducting the engineering construction and production of Wuzhou Landfill Project. The project company named Wuzhou City China Water New Renewable Resources Company Limited* (梧州市中水新能源科技有限公司) was formed in September 2015.

(iii) Chengdu City Project

On 15 September 2015, New China Water (Nanjing) enter into Sale and Purchase Agreements with 韓國（株）漢陽 ENG# (Hanyang ENG Co., Ltd.*), RTS股份有限公司# (Re-Tech Solution Co., Ltd.), 韓國產業銀行# (Korea Development Bank*) and 首都圈垃圾填埋場管理公社# (Sudokwon Landfill Site Management Corp.) respectively, to acquire in aggregate of 49% equity interest of Chengdu City Green State Renewable Energy Co., Limited (成都市綠州新再生能源有限責任公司) ("**Chengdu City Project**") at an aggregate consideration of approximately RMB50.20 million. Chengdu City Project owns an operation right to operate a landfill gas power generator plant in Changan landfill site, Sichuan Province, the PRC. The landfill gas power generator plant is still under construction. Upon the completion of the construction of its landfill gas power generator plant, Chengdu City Project will principally engage in (i) the collection, purification, power generation and the development of Clean Development Mechanism projects regarding the landfill gases generated from phase one and phase two of Changan landfill site; (ii) the sales of electricity; and (iii) the trading of carbon credits derive from emission reduction by landfill gases. Up to the date of this report, as the conditions for completion have not been fulfilled, the group has not paid any consideration and the acquisition is not completed.

(iv) Chenzhou Environmental and Huayin Heng Yang Projects

On 21 September 2015, New China Water (Nanjing) and Datang Huayin Electric Power Co., Ltd* (大唐華銀電力股份有限公司) entered into the acquisition agreements to acquire (i) entire equity interests of Datang Huayin Chenzhou Environmental Power Company Limited* (大唐華銀郴州環保發電有限公司) ("**Chenzhou Environmental Project**") and (ii) entire equity interests of Datang Huayin Heng Yang Environmental Power Company Limited* (大唐華銀衡陽環保發電有限公司) ("**Huayin Heng Yang Project**") for a consideration of RMB14.0 million and RMB11.0 million, respectively. Chenzhou Environmental principally engages in solid waste detox treatment and landfill gas power generation in Xiangshan Ping, Suxian District, Chenzhou City, Hunan Province. Huayin Heng Yang Environmental principally engages in solid waste detox treatment and landfill gas power generation in Zhang Mu Town, Hengyang County, Hunan Province. As at 31 December 2015, the Company had paid the entire consideration of HK$29.84 million as deposits. The acquisitions were completed on 3 March 2016.

(v) Chongqing Camda and Hainan Camda Projects

On 25 November 2015, New China Water (Nanjing) and Camda New Energy Equipment Company Limited* (康達新能源設備股份有限公司) entered into two sale and purchase agreements to acquire (i) the entire equity interest of Chongqing Camda New Energy Equipment Company Limited* (重慶康達新能源有限公司) ("**Chongqing Camda Project**") and (ii) entire equity interest of Hainan Camda New Energy Equipment Company Limited* (海南康達新能源有限公司) ("**Hainan Camda Project**") at an aggregate consideration of approximately RMB51.2 million. Chongqing Camda operates the Chongqing Changshengqiao Landfill gas collection and power generation project until 2028 pursuant to the Chongqing Changshengqiao Landfill gas collection project cooperation agreement* (重慶長生橋垃圾衛生填埋場沼氣收集和利用項目合作協定書). Hainan Camda operates the Haikou City Yan Chunling Landfill gas utilization and power generation project. Up to the date of this report, the acquisitions are not completed as the conditions for completion have not been fulfilled. In March 2016, the Group had paid partial consideration of RMB10.27 million for Chongqing Camda project only.

(vi) Shenzhen Weimin Ecological Project

On 22 December 2015, New China Water (Nanjing), Shenzhen Weimin Environmental Protection Technological R&D Company Limited* (深圳市為民環保科技開發有限公司) and Shenzhen Weimin Ecological Technology Company Limited*(深圳市為民生態技術有限公司) entered into the Subscription and Capital Injection Agreement, pursuant to which New China Water (Nanjing) has conditionally agreed to subscribe for and inject RMB40 million into Shenzhen Weimin Ecological ("**Shenzhen Weimin Ecological Project**"). New China Water (Nanjing) will hold 55% equity interest of Shenzhen Weimin Ecological upon Completion. Shenzhen Weimin Ecological Project is engaged in technology development of environmental protection equipment; municipal solid waste cleaning and collection services; waste gas and waste water treatment; development of biogas purification technology; and comprehensive treatment of municipal solid waste. Shenzhen Weimin Ecological Project had entered into agreements with the local government to invest, operate and provide waste treatment services for a build-operate-own project of a landfill plant in a landfill located Longgang District, Shenzhen, the PRC until 2021. Up to the date of this report, as the conditions for completion have not been fulfilled, the Group has not paid any consideration and the acquisition is not completed.

FORMATION OF RENEWABLE ENERGY PROJECT AFTER THE YEAR UNDER REVIEW

He County Project

On 4 February 2016, New China Water (Nanjing) and He County City Bureau* (和縣城市管理局) entered into an innocuous deodorization and resource recycling utilization agreement ("**Contract**") for the garbage gas at He County Household Garbage Landfill Site ("**He County Landfill Site**") in Xi Fu Town Ji Long Village* (西埠鎮雞籠山村), Anhui Province, PRC ("**He County Project**"). He County City Bureau has engaged New China Water (Nanjing) to collect and conduct innocuous deodorization treatment for all garbage gas generated from He County Landfill Site. Pursuant to the Contract, if the daily household garbage in He County Landfill Site more than 500 tonne per day ("**Guaranteed Level**"), He County City Bureau shall entitle to receive 10% net profit for resource utilization fee from New China Water (Nanjing). If less than the Guaranteed Level, no resource utilization fee is required to pay. The term of this Contract is 20 years until 23 February 2036. New China Water (Nanjing) is required to form a project company with minimum registered share capital of HK$30 million for He County Project. Up to the report date, the project company has not yet to establish.

OTHER EVENTS DURING THE YEAR UNDER REVIEW

Adjustment to water tariff

On 17 June 2015, Jinan City Municipal Price Bureau* (濟南市物價局), Shandong Province, the People's Republic of China approved Jinan Hongquan to increase in its water tariff charging from RMB1.095 to RMB1.560 per tonne with effect from 23 May 2015.

Redemption of CB

On 16 October 2013, the Company and Prosper Talent Limited entered into Subscription Agreement in respect of the issue of and subscription for CB in aggregate amount of HK$200 million, comprising Series A Bond and Series B Bond. The Company had fully redeemed the Series A Bond and Series B Bond on 30 October 2014 and 14 January 2015 upon maturity ("**Redemption**"). Following the Redemption, the Company has no outstanding CB.

LITIGATIONS AND ARBITRATION

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

On 21 August 2012, the Company and its subsidiary of Swift Surplus Holdings Limited ("**Swift Surplus**") (collectively as the "**Lenders**") entered into repayment agreements (the "**Repayment Agreements**") with the Sihui Sewage Treatment Co. Ltd.* (四會市城市污水處理有限公司) and Top Vision Management Limited ("**Top Vision**") (collectively as the "**Borrowers**") together with their respective guarantors, pursuant to which, the Borrowers shall repay to the Lenders the loan receivables of approximately HK$58.43 million together with interest accrued thereon (the "**Loan Receivables**"). HK$5 million of the Loan Receivables will be repaid on or before 30 September 2012 and the remaining Loan Receivables shall be repaid on or before 31 December 2012. On 29 August 2012, the Company only received HK$5 million of the Loan Receivables. However, the remaining Loan Receivables of HK$53.43 million (the "**Remaining Loan Receivables**") plus underlying interests were not yet received on 31 December 2012. On 22 March 2013, the Lenders have entered into supplemental deeds with the Borrowers together with their respective guarantors, pursuant to which, approximately HK$18.03 million of the Remaining Loan Receivables and underlying interests shall be repaid to the Lenders on or before 21 March 2014 (the "**Partial Payment of the Remaining Loan Receivables**"). Nevertheless, Swift Surplus and Top Vision and its guarantors could not reach an agreement in respect of the terms and date of the repayment of the outstanding balance of HK$35.40 million of the Remaining Loan Receivables and underlying interests (the "**Outstanding Balance**"). Despite the Company several requests and demands, Top Vision failed to effect payment of the Outstanding Balance. On 14 May 2013, the Company instructed its legal counsel to file the writ of summons (the "**Writ**") to the High Court of Hong Kong Special Administrative Region (the "**High Court**") to recover the Outstanding Balance from Top Vision. On 25 June 2013, the High Court adjudged a final judgment that Top Vision shall pay the Outstanding Balance to Swift Surplus (the "**Final Judgement**"). Top Vision has not performed the repayment obligation under the judgment issued by the High Court. The Company cannot locate any asset of Top Vision in Hong Kong. As advised by the legal counsel, without information on the assets of Top Vision in Hong Kong, the Company cannot enforce the Final Judgment against Top Vision. As the major assets owned by the subsidiaries of Top Vision are located in Guangdong Province, the PRC, the Company had undertaken recovery actions including but not limited to legal actions taken in PRC to collect the Remaining Loan Receivables. On 20 August 2014, a petition was filed by Galaxaco Reservoir Holdings Limited ("**Galaxaco**") to wind up Top Vision, one of the creditors of Top Vision. Top Vision has now been wound up by the High Court by a Winding-up Order under Companies Winding-up Proceedings No.157/2014 and the first meeting of creditors of Top Vision was held on 30 October 2014 for the appointment of provisional of liquidator. On 14 January 2015, the solicitors act for Galaxaco requested the High Court to have the hearing adjourned for the appointment of liquidators (the "**Appointment**") pending the alleged negotiation settlement between Top Vision and all creditors including the Company and its subsidiary of Swift Surplus and Galaxaco. On 4 May 2015, The High Court appointed SHINEWING Specialist Advisory Services Limited as liquidators ("**Liquidators**"). The Liquidators have carried out the site visits and performed the investigation on PRC subsidiary of Top Vision. On 16 July 2015, the Zhaoqing Intermediate People's Court adjudged that the Final Judgement was recognised and accepted to execute in Mainland China for the recovering the Outstanding Balance and the underlying interest from Top Vision ("**PRC Judgement**"). During the year, the Company has instructed its legal counsel to issue demand letters to respective guarantors, if guarantors fail to settle the Remaining Loan Receivables and the underlying interests within stipulated time, the Company will undertake the arbitration and civil action in Hong Kong against the respective guarantors. On 27 January 2016, the PRC Judgement was announced on the website of The People's Court Announcement for 60 days ("**Announcement Period**"). If Top Vision has not appealed for the PRC Judgement within 30 days after the Announcement Period. The PRC Judgement will be automatically effective thereafter, the Company can enforce the PRC Judgement. As at 31 December 2014 and 2015, the loan receivables from Top Vision of HK$43.60 million were fully impaired. The Board believed that no significant financial impact will be affected on the Group as sufficient impairment loss on the Loan Receivables has been provided.

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

Guangzhou Hyde Environmental Protection Technology Co. Ltd.* (廣州市海德環保科技有限公司) ("**Guangzhou Hyde**") (an indirect wholly-owned subsidiary of the Company) and Yunnan Chaoyue Gas Company Limited* (雲南超越燃氣有限公司) ("**Yunnan Chaoyue Gas**") entered into the cooperation contract dated 13 October 2010, pursuant to which Guangzhou Hyde shall paid a refundable deposit of HK$10 million ("**Deposit**") to Yunnan Chaoyue Gas for the purpose of obtaining the operation and management right of the Yunnan Dian Lake project ("**Project**"). Pursuant to the cooperation contract, Yunnan Chaoyue Gas shall refund the Deposit to Guangzhou Hyde within nine months once it was unsuccessfully to obtain the Project. Yunnan Chaoyue Gas has failed to repay the aforesaid Deposit to Guangzhou Hyde when it fell due despite Guangzhou Hyde's repeated requests and demands. The Deposit was classified as loan receivable and fully impaired in 2011. The dispute over cooperative contract between Guangzhou Hyde and Yunnan Chaoyue Gas was applied to Guangzhou Arbitration Commission ("**Commission**") for arbitration on 24 February 2012. The Commission accepted the case and started a trail on 5 June 2012. After the trail, arbitration tribunal ruled an award on 12 June 2012, adjudging that Yunnan Chaoyue Gas should pay Guangzhou Hyde the principal of RMB8.56 million and overdue interests thereon; and the relevant arbitration fees.

The above award confirmed the amount to be paid by Yunnan Chaoyue Gas to Guangzhou Hyde should be settled in one-off manner within 10 days from the date on which this award is served. Late payment will result in proceedings set out in article 229 of Civil Procedure Laws of the People's Republic of China. As Yunnan Chaoyue Gas has not performed repayment obligation under the award on time, Guangzhou Hyde applied to Kunming Intermediate People's Court (the "**Kunming Court**") for civil enforcement on 21 July 2012, and Kunming Court has accepted such application. On 13 May 2013, Yunnan Chaoyue Gas provided loan repayment plan (the "**Repayment Plan**") to Guangzhou Hyde. On 1 September 2014, Kunming Court has approved the civil enforcement against Yunnan Chaoyue Gas. Up to this report date, Yunnan Chaoyue Gas has not performed the repayment obligation according to the Repayment Plan. The aforesaid litigation is unlikely to have any significant material adverse financial impact on the Group.

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

KEY RISKS AND UNCERTAINTIES

Our 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 our Group's businesses. The followings are the key risks and uncertainties identified by our Group. There may be other risks and uncertainties in addition to those shown below which are not known to our Group or which may not be material now but could turn out to be material in the future:

i. Foreign exchange rates risk

The Group's assets, borrowings and major transactions are mainly denominated in Renminbi. The Group mainly settles business expenses and receives operating income in mainland China in Renminbi. It has not used any financial instruments to hedge against bank borrowings in Renminbi, which are used mainly to meet capital requirements of its business in China. The Company mainly remits money to PRC for acquisition of projects or capital injection to establish investment companies with HK dollars. The exposure to foreign exchange risk is minimal and will continue to closely monitor the exposure and take any actions when appropriate.

ii. Equity price risk

The Group is exposed to equity price risk through its investments in listed equity securities and investments in funds. The investment portfolio is frequently reviewed and monitored by the Board to ensure prompt action taken and the loss arising from the changes in the market values is capped within an acceptable range.

iii. Liquidity risk

Liquidity risk is the potential that our 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, our 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.

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

v. Investment risk

Investment risk can be defined as the likelihood of occurrence of losses relative to the expected return on any particular investment. Key concern of investment framework will be balancing risk and return across different investments, and thus risk assessment is a core aspect of the investment decision process. Proper authorisation system has been set up and detailed analysis will be made before approving investments. Regular updates on the progress of the investments of our Group would be submitted to the Board.

vi. Manpower and retention risk

Our Group may face the risk of not being able to attract and retain key personnel and talents with appropriate and required skills, experience and competence which would meet the business objectives of our Group. Our Group will provide attractive remuneration package to suitable candidates and personnel.

vii. Legal and regulatory compliance risk

Our businesses success and operations could be impacted by the change of respective government laws and regulation in PRC. Any failure to anticipate the trend of regulatory changes or cope with relevant requirement may result in non-compliance of local laws or regulations, leading to not only financial loss but also reputational damage to the Group. In mitigation of relevant risks, the Group pays close attention to the relevant regulatory and legislative developments of the markets it operates and actively monitors and consults with regulators of the markets on changes which could impact on our businesses.

CAPITAL COMMITMENTS

As at 31 December 2015, the Group has the capital commitments contracted but not provided for acquisition of property, plant and equipment and concession intangible assets approximately HK$110.55 million (2014: HK$92.39 million) and properties under development in relation to development costs of existing projects of HK$9.27 million (2014: HK$26.65 million).

CONTINGENT LIABILITIES

During the year, the Company has issued a guarantee to a bank in respect of a bank borrowing made by a wholly owned subsidiary which expires on 26 September 2019. As at 31 December 2014, the maximum liability of the Company relating to the aforesaid guarantee issued is the outstanding amount of the bank borrowing of the wholly owned subsidiary of HK$47.75 million (2014: HK$15.13 million).

PLEDGE OF ASSETS

The Group's bank loans and other loans of HK$123.31 million in total as at 31 December 2015 (2014: HK$50.52 million) were secured by charges over:

(i) property, plant and equipment in which their carrying amount was HK$ nil (2014: HK$0.75 million);

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

(iii) properties under development with a carrying amount of approximately HK$ nil (2014: HK$146.08 million) have been pledged to secure a personal loan granted to Mr. Zhou Ping Hua, a non-controlling shareholder of a subsidiary of the Company.

NO MATERIAL CHANGE

Save as disclosed above, during the year ended 31 December 2015, there has been no material change in the Group's financial position or business since the publication of the latest annual report of the Company for the year ended 31 December 2014.

EMPLOYEES

As at 31 December 2015, excluding jointly controlled entities and associates, the Group had 1,128 (2014: 1,002) employees, of which 10 (2014: 10) are Hong Kong employees. During the year, total employee benefit expenses, including directors' emoluments and provident funds, was HK$116.32 million (2014: HK$119.30 million). The decrease was caused by lesser amount of discretionary bonuses in 2015, offset by higher salary and benefits on the increasing headcount of several of our renewable energy projects which have commenced their operations in 2015. Employees were remunerated on the basis of their performance and experience. Remuneration packages include salary and a year-end discretionary bonus, which are determined with reference to the Group's operating results, market conditions and individual performance. Remuneration packages are normally reviewed as an annual basis by the Remuneration Committee. During the year, all of the Hong Kong employees have participated in the Mandatory Provident Fund Scheme, and a similar benefit scheme is offered to employees in Mainland China. In addition, the Group encourage employees' participation in continuing training programmes, seminars and e-learning through which their career, knowledge and technical skills can be enhanced with the development of individual potentials.

DIRECTORS

Executive Directors

Mr. Wang De Yin ("Mr. Wang"), aged 53, was appointed as an executive Director of the Company and the Chairman in August 2011. He was also appointed as a Chief Executive Officer of the Company in July 2012. Mr. Wang graduated from Xidian University with a bachelor's degree in Computer Engineering. Before joining the Company, Mr. Wang had over 26 years of experience in information technology and business restructuring. He led various scientific research projects and won various awards during his service with Maanshan Iron and Steel Design and Research Institute of The Ministry of Metallurgical Industry. He had been the chairman and president of Shenzhen Modern Computer Company Limited and founder and managing director and chief executive officer of Shenzhen Hornson Science and Tech. Company Limited. From 2005 to 2009, he served as the managing director and general manager of Tibet Urban Development and Investment Co., Ltd. (formerly known as Tibet Jinzhu Co., Ltd.) (Shanghai Stock Exchange stock code: 600773), during which, he undertook business restructuring of the company and launched a series of effective reforms and innovative measures, which prepared the company for the asset restructuring that followed.

Mr. Lin Yue Hui ("Mr. Lin"), aged 45, was appointed as an executive Director of the Company in August 2011. He is currently a partner of Guanghe Law Firm. Mr. Lin subsequently obtained a Certificate of Graduation from Doctoral Program from China University of Political Science and Law. Mr. Lin was granted the PRC lawyer's qualification certificate in 2001. Before joining the Company, Mr. Lin had accumulated 17 years of experience in the law profession, his area of practice includes litigation matters involving acquisitions and mergers, real estate, economic disputes etc. He had also been a legal consultant of various companies.

Mr. Liu Feng ("Mr. Liu"), aged 54, was appointed as an executive Director of the Company in August 2011. Mr. Liu graduated from Guangdong Provincial Party School majoring in Economics and subsequently attained postgraduate qualification. Before joining the Company, he had accumulated over 30 years of experience in the banking, finance and property sectors, including the posts of section chief and deputy governor of Foshan Commercial Bank and held directors and senior posts in various investment companies.

Ms. Chu Yin Yin, Georgiana ("Ms. Chu"), aged 45, was appointed as the executive Director and Company Secretary of the Company in October 2006 and November 2006 respectively. Ms. Chu is currently an independent non-executive Director of each Excel Development (Holdings) Limited (stock code: 1372) and Sino Golf Holdings Limited (stock code: 361) which are listed on the Main Board of the Stock Exchange. Ms. Chu holds a Bachelor's Degree of Business Administration in Accountancy and a Master's Degree of Corporate Governance. She is a fellow member of both the Hong Kong Institute of Certified Public Accountants, the Association of the Chartered Certified Accountants and a member of the Institute of Chartered Accountants in England and Wales. Ms. Chu is also a fellow member of both the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Company Secretaries. Prior to joining the Company, she has over 16 years' extensive experience by working in an international audit firm and other listed companies.

Ms. Deng Xiao Ting ("Ms. Deng"), aged 42, was appointed as an executive Director of the Company in July 2012. She has once served as a national civil servant at Huizhou Public Security Bureau. Ms. Deng graduated from Jinan University, majoring in Accounting and subsequently graduated from the Party School of the Central Committee of C.P.C. with a major in law. Ms. Deng is the sister of Mr. Deng Jun Jie who is the beneficial owner of Honghu Capital Co. Ltd. ("Honghu Capital"). Honghu Capital is the substantial shareholder of the Company.

Independent non-executive Directors

Mr. Guo Chao Tian ("Mr. Guo"), aged 70, was appointed as an independent non-executive Director of the Company in June 2012. Mr. Guo has once the chairman and general manager of Shenzhen Jianling Investment and Development Co., Ltd (深圳市建瓴投資發展有限公司). He is also an independent director of China Jingu International Trust Co., Ltd (中國金穀國際信託有限責任公司). Mr. Guo holds a bachelor degree and a master degree of Economics from Peking University. Before joining the Company, Mr. Guo had more than 28 years of experience in economic analysis and investment. He was the deputy head of the Administrative Department of the Institute of Economics Chinese Academy of Social Science and the head of the Real Estate Department of the Academy. He was accredited as a senior economist by China Rural Trust and Investment Corporation (中國農村信託投資有限公司) and he was a general manager of the Real Estate Department and a general manager of Urban Property Management of the Corporation.

Mr. Li Jian Jun ("Mr. Li"), aged 37, was appointed as an independent non-executive Director of the Company in September 2012. Mr. Li is currently a director of Silver Trend International Industrial Limited. Mr. Li holds a Bachelor Degree in Physics from the South China Normal University. Since July 2000, Mr. Li has held various positions, namely senior engineer of core technology and director, in GP Electronics (Huizhou) Co., Ltd. in Hong Kong and Celestion International Limited, KEF International Limited and Will State Limited in the UK. Mr. Li has almost 10 years of experience in the development of electroacoustic products and management of large-scale enterprises.

Mr. Wong Siu Keung, Joe ("Mr. Wong"), aged 51, was appointed as an independent non-executive Director of the Company in October 2012. Mr. Wong is currently an independent non-executive Director of Interactive Entertainment China Cultural Technology Investments Limited which is listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (stock code: 8081). Mr. Wong holds a Degree of Master of Arts in International Accounting from City University of Hong Kong and a Master's Degree of Corporate Governance from Hong Kong Polytechnic University. He is an associate member of Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Wong has extensive experience in taxation, accounting, financing, audit field and public listed companies for many years.

SENIOR MANAGEMENT OF THE GROUP

Mr. Liu Hui Quan ("Mr. Liu"), aged 53, was appointed as a Deputy General Manager of the Company in January 2012. Mr. Liu holds a Master's Degree in Business Administration from Honolulu University, United States of America. Before joining Company, Mr. Liu has over 10 years extensive experience in the human resource management in the PRC.

Ms. Zhang Chun Li ("Ms. Zhang"), aged 42, was appointed as the finance manager of the Company in April 2013. In January 2014, Ms. Zhang had been promoted to the financial controller of the Company. Ms Zhang graduated from the Institute of Changsha Traffic with the major in accounting. She is an associate member of the Chinese Institute of Certified Public Accountant. Before joining the Group, she had accumulated over 10 years of extensive experience in the financial accounting and management accounting.

Mr. Xu Huan Xiong ("Mr. Xu"), aged 54, was appointed as a deputy general manager of the Company in October 2014. Mr. Xu is a leading expert in China's water supply industry and has served in the industry for nearly 20 years, with extensive experience in the construction of water pipe networks, regional water supplies, and the design, construction and management of hydropower stations.

Mr. Huang De Ping ("Mr. Huang"), aged 45, was appointed as the Chief Internal Auditor of the Company in July 2015. Mr. Huang is a qualified PRC certified public accountant and has over ten years of working experience in finance and auditing as well as extensive experience in corporate internal audit and internal control management.

OVERVIEW

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

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

For the year ended 31 December 2015, the Company has complied with the code provisions of Corporate Governance Code ("CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"), save for the deviations of Code A.2.1, A.4.1 and A.6.7.

A. Directors

A.1 The Board

- The overall management of the Company's business is vested in the Board. The Board takes responsibility to oversee all major matters of the Company, including the formulation and approval of all policy matters, overall strategies, internal control and risk management systems, and monitoring the performance of the senior management. The Directors have to take decisions objectively in the interests of the Company. The Company has held 42 Board meetings in the year of 2015. Directors have been consulted to advice the agenda of the Board meeting. Sufficient notice of the Board meeting has been given to the Directors.

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

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

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

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

- The Board holds meetings on a regular basis and will meet on other occasions when a board-level decision on a particular matter is required. The individual attendance records of each Director including INEDs at the meetings of the Board, Remuneration Committee, Audit Committee, Nomination Committee, Investment Committee and annual general meeting ("**AGM**") during the year ended 31 December 2015 are set out below:

Attendance Records

	Number of meetings attended/held					
Name of Directors	Board	Remuneration Committee	Audit Committee	Nomination Committee	Investment Committee	Annual General Meeting
Executives Directors:						
Mr. Wang De Yin *(Chairman and Chief Executive Officer)*	42	N/A	N/A	2	11	1
Mr. Lin Yue Hui	36	N/A	N/A	N/A	12	–
Mr. Liu Feng	42	3	N/A	N/A	12	1
Ms. Deng Xiao Ting	42	N/A	N/A	N/A	N/A	1
Ms. Chu Yin Yin, Georgiana	39	N/A	N/A	N/A	N/A	1
Independent Non-Executive Directors:						
Mr. Guo Chao Tian	41	N/A	3	N/A	N/A	1
Mr. Li Jian Jun	41	3	3	2	N/A	–
Mr. Wong Siu Keung, Joe	42	3	3	2	N/A	1

N/A: not applicable

A.2. Chairman and Chief Executive Officer

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

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

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

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

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

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

- The Chairman has held one private meeting with INEDs to discuss major events or issues which incurred in 2015 and the Company's business plan to be developed in 2016. The Board believed that INEDs could through this private meeting to voice out their concerns on financial aspects after discussing major events or issues and provide constructive advice on the direction of Company's future development.

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

A.3 Board Composition

- The composition of the Board is shown on page 32 of this report. The Board comprises a total of 8 members including 5 executive Directors and 3 INEDs. Members of the Board have different professional and relevant industry experiences and background so as to bring in valuable contributions and advices for the development of the Group's business.

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

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

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

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

- The names of the directors and their respective biographies are set out on pages 29 to 30 of this annual report.

A.4 Appointment, re-election and removal

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

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

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

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

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

A.5 Nomination Committee

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

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

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

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

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

iv. To review the Board Diversity Policy; and

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

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

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

- During the year under review, the Nomination Committee held one meeting to review the composition of the Board and its committees as well as the background and experiences of the Board members and evaluate the contributions of the Board members to the Group in 2015. An analysis of the Board's current composition is set out in the following chart:

Name of director	Title	Age	Gender	Professional/Industry experience	Ethnicity	Educational background	Length of service on Board (since)
Wang De Yin	ED, Chairman & CEO	53	Male	Information technology, corporate management and business restructuring	Chinese	Bachelor's degree	August 2011
Lin Yue Hui	ED	45	Male	PRC law profession and investment	Chinese	Doctoral degree	August 2011
Liu Feng	ED	54	Male	Banking, financing and property operation	Chinese	Master's degree	August 2011
Deng Xiao Ting	ED	42	Female	Accounting and investment	Chinese	Bachelor's degree	July 2012
Chu Yin Yin, Georgiana	ED & Company Secretary	45	Female	Accounting, auditing and financing	Chinese	Master's degree	October 2006
Guo Chao Tian	INED	70	Male	Economic analysis and investment	Chinese	Master's degree	June 2012
Li Jian Jun	INED	37	Male	Electroacoustic product & corporate management	Chinese	Bachelor's degree	September 2012
Wong Siu Keung, Joe	INED	51	Male	Accounting, auditing and financing	Chinese	Masters' degree	October 2012

ED: executive Director
INED: Independent non-executive Director

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

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

A.6 Responsibilities of the Directors

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

- All Directors have participated in continuous professional development to develop and refresh their knowledge and skills to ensure their contribution to the Board remains informed and relevant. In 2015, the Company has arranged a training to all Directors which was provided by the accredited service provider.

During the year ended 31 December 2015, the Directors participated in the following training:

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

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

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

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

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

A.7 Supply of and access to information

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

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

B Remuneration of Directors and Senior Management

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

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

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

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

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

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

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

- The details of the remuneration of the Directors are set out in note 44 of the consolidated financial statements of this annual report. The band of the emoluments of senior management personnel and related number of members of senior management personnel are as follows:

Emolument band (HK$)	**2015 Number of individuals**	2014 Number of individuals
Nil to 500,000	**2**	1
500,001 to 1,000,000	**2**	3

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

- The Group's stock option scheme as described on note 41 of this annual report is adopted as the Group's long-term incentive scheme.

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

C Accountability and Audit

C.1 Financial Reporting

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

- The directors acknowledged their responsibility for preparing the financial statements of the Company for the year ended 31 December 2015. The Board must ensure that the financial statements of the Group are prepared so as to give a true and fair view of the financial status of the Group.

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

- A statement by the independent auditor of the Company about their reporting responsibilities is included in the Report of the Auditors on pages 80 to 81 of this annual report.

- A separate statement in the Annual Report on pages 10 to 28 containing a discussion and analysis of the Group's performance.

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

C.2 Risk Management and Internal Control

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

- The Internal Audit Department adopts a risk-based approach to conduct its annual audits and assess the risk levels faced by the Group and its operations through its past audit findings, risk assessment and consultations with both the management and the Audit Committee. The scope of internal audit covers key areas such as the operational, investments, corporate governance, risk management and financial management of the Group. The work results and suggestions of the Internal Audit Department are reported by the Chief Internal Auditor directly to the Audit Committee for consideration, then makes recommendations to the management of the Company and reports to the Board in respect thereof.

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

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

- The annual review of the adequacy of resources, qualifications or experience of staff of the Company's accounting and financial reporting function and their training programs and budget was conducted in 2015. The Chief Internal Auditor reported the review results to the Audit Committee. The Board believed that the Company has sufficient qualifications and experience staff in accounting and financial reporting function.

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

- The Board will continue to identify, evaluate and manage the significant risks faced by the Group and to enhance the risk management and internal control systems of the Group with the assistance of the Internal Audit Department on an ongoing basis.

C.3 Audit Committee

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

The major duties of the Audit Committee include:

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

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

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

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

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

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

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

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

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

For the year under review, the Audit Committee held 3 meetings included the review of the final results for the year ended 31 December 2015 and interim accounts for 30 June 2015 and the amendments to the Audit Committee Terms of Reference. The Group's annual report for the year ended 31 December 2015 has been reviewed by the Audit Committee. The attendance record of individual members is set out in the section headed "The Board" of this report.

D. Delegation by the Board

D.1 Management functions

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

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

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

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

  – Setting the objectives and targets of the Company;

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

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

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

  – Regularly evaluating businesses and operation performance;

  – Ensuring effective implementation of the Board's decision;

  – Ensuring adequate fundings; and

  – Monitoring performance of the management of the Group.

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

D.2 Board Committees

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

D.3 Corporate Governance Functions

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

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

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

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

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

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

E Communication with shareholders and investors

E.1 Effective communication

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

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

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

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

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

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

- The updated consolidated version of the Company's Memorandum and A.A is available on the Company's website and on the Stock Exchange's website. During the year ended 31 December 2015, there was no change in the Company's constitutional documents.

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

E1.1 Shareholders' rights

Procedures for Shareholders to Convene an EGM

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

Procedures for Proposing a Person for Election as a Director

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

Procedures for Directing Shareholders' Enquiries to the Board

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

E.2 Voting by poll

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

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

F. Company Secretary

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

INVESTMENT COMMITTEE

The Investment Committee of the Company was established since 18 December 2008 with specific terms of reference. The Committee members consisted of three executive Directors, namely Mr. Wang De Yin (Committee Chairman), Mr. Lin Yue Hui, Mr. Liu Feng and senior management of the Group including, Mr. Huang De Ping (Chief Internal Auditor), Mr. Liu Hui Quan (Deputy General Manager) and Mr. Li Jian Ping (Director of subsidiary). The terms of reference of the Investment Committee is available on the Company's website.

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

- The major duties of the Investment Committee include:

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

  (b) Review the investment policies and strategy;

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

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

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

- The Investment Committee held 12 meetings during the year. The attendance record of individual members is set out in the section headed "The Board" of this report.

AUDITORS' REMUNERATION

For the financial year, the remuneration paid and payable to Crowe Horwath (HK) CPA Limited, the auditors of the Company, totalled approximately of HK$1,450,000, of which HK$1,190,000 related to audit services and HK$260,000 to professional services for special engagements, taxation and other non-audit services. The auditors' remuneration has been duly approved by the audit committee and there was no disagreement between the Board and the audit committee on the selection and appointment of auditor.

COMPLIANCE WITH THE CODE ON THE CORPORATE GOVERNANCE CODE

The Company has complied with the CG Code throughout the financial year ended 31st December 2015 except for deviations from the code provision A.2.1, A.4.1 and A.6.7 as below:

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

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

- Pursuant to code provision A.6.7 of the CG Code, the INEDs and other non-executive Directors should attend general meetings. At the AGM held on 4 June 2015 ("2015 AGM"), Mr. Li Jian Jun ("Mr. Li") was unable to join 2015 AGM due to his business engagement in China. Mr. Li is an INED of the Company. Except for him, all INEDs of the Company had attended the 2015 AGM to communicate with and developed a balanced understanding of the views of shareholders.

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

The Board of Directors of the Company, present their report together with the audited consolidated financial statements of the company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2015.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding. The principal activities of the Group include: (i) provision of water supply and sewage treatment service; (ii) construction of water supply and sewage treatment infrastructure; and (iii) exploitation and sale of renewable energy in the PRC. The details of principal activities and other particulars of the subsidiaries are set out in note 22 to the consolidated financial statements.

Details of the activities during the year as required by Schedule 5 to the Companies Ordinance, including a description of the key risks and uncertainties facing the Group, an indication of likely future development in the Group's business and the Group's environmental policies and performance are set out under the sections Management Discussion and Analysis on pages 10 to 28, Chairman Statement on pages 5 to 9 and Environment, Social and Governance Report on pages 57 to 79 of this annual report respectively. An analysis of the Group's performance during the year using financial key performance indicators can be found throughout this Annual Report. There were no significant changes in the nature of the Group's principal activities during the year.

SEGMENT INFORMATION

Analyses of the Group's segmental information by businesses for the year ended 31 December 2015 are set out in note 8 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2015 and the state of affairs of the Group and the Company are set out in the financial statements on pages 82 to 208.

DIVIDENDS

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

RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

Employees, customers and suppliers are the key stakeholders who affected the sustainability of our business. Engaging with those stakeholders will not only help us understand the possible risks and opportunities to our business, but also help us to mitigate risk and seize the opportunities in the real market situation. The Group believes that our people are critical success factors to the Group's competitiveness in the market. As such, we had adopted a Share Option Scheme for the purpose of providing incentives and rewards to eligible participants who contributed to the success of the Group's operations. Customer satisfaction with our services and products has a profound effects on our profitability. To provide good quality services to our customers, our dedicated teams are in constant communication with our customers and potential customers to uncover and create customer needs and help customers make informed decisions. Collaborative and mutual beneficial business relationship with our suppliers is of important to achieve higher levels of efficiency and competitive advantage. The Group evaluate the capabilities of our suppliers to determine if they are able to meet the requirement and needs of the Group from time to time. Developing and maintaining good relationship with various commercial banks and financial institutions always are our main tasks because our capital-intensive projects require on-going funding to maintain continuous growth.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2015, the aggregate amount of turnover attribute to the Group's five largest customers was less than 30% of the total value of the Group's turnover. The Group's purchase to the five largest suppliers accounted for less than 30% of the total value of the Group's purchase. None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL, SHARE OPTIONS AND CONVERTIBLE BONDS

Details of the movements in the Company's share capital, share options and convertible bonds during the year are set out in notes 34, 41, and 33 to the consolidated financial statements, respectively.

RESERVES AND DISTRIBUTIVE RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and note 34 to the consolidated financial statements, respectively.

The Company's reserves available for distribution comprise the share premium account, less accumulated losses. As at 31 December 2015, the reserves of the Company available for distribution to shareholders amounted to HK$372,622,000 (2014: HK$163,968,000).

BANK BORROWINGS AND BANKING FACILITIES

Particulars of bank loans of the Group as at 31 December 2015 are set out in note 29 to the consolidated financial statements.

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the group for the last five financial years is set out on page 4.

DIRECTORS

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

Executives Directors:

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

Independent Non-Executive Directors:

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

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

DIRECTORS AND SENIOR MANAGEMENT BIOGRAPHICAL DETAILS

Biographical details of the directors and senior management of the Company are set out on pages 29 to 30 of the annual report.

EMOLUMENT POLICY

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

DIRECTORS' SERVICE CONTRACTS

As at 31 December 2015, none of the Directors has entered into any service contracts with the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations and does not have specific terms of appointment but is subject for retirement and for re-elections at the forthcoming AGM as required by the A.A. of the Company.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 31 December 2015, the interests and short positions of each Director and Chief Executive of the Company, or their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("**SFO**") which (a) had been notified of the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which Directors have taken or deemed to have under such provisions of the SFO) or which (b) were required pursuant to section 352 of the SFO, to be entered in the register referred to therein; or which (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "**Model Code**") contained in Appendix 10 to the Listing Rules to be notified to Company and the Stock Exchange were as follows:

(i) Interest in the Shares

Name of director	Nature of interest	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Mr. Wang De Yin	Beneficial owner	5,000,000 (L)	0.31%
Mr. Lin Yue Hui	Beneficial owner	5,000,000 (L)	0.31%
Mr. Liu Feng	Beneficial owner	5,000,000 (L)	0.31%
Ms. Deng Xiao Ting	Beneficial owner	3,000,000 (L)	0.19%
Ms. Chu Yin Yin, Georgiana	Beneficial owner	743,200 (L)	0.05%

For the purpose of this section, the shareholding percentage in the Company is calculated on the basis of 1,596,539,766 shares in issue as at 31 December 2015.

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

Save as disclosed above, as at 31 December 2015, none of the Directors or Chief Executive of the Company had any interest or short position in any shares, underlying shares or debenture of the Company or any of its associated corporations (within meaning of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which Directors have taken or deemed to have under such provisions of SFO) or (b) were required pursuant to section 352 of the SFO, to be entered in the register referred to therein; or which (c) were required, pursuant to the Model Code to be notified to Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2015, the following persons and entities, other than a Director or chief executive of the Company disclosed under the section "Directors' and Chief Executive's interests in Securities" above had interest or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of SFO:

Name of shareholder	Capacity	Number of issued ordinary shares held	Approximate Percentage of the issued share capital of the Company
Deng Jun Jie	Interest of controlled corporation	312,796,000(L) *(Note 1)*	19.59%
Honghu Capital Co. Ltd	Beneficial owner	312,796,000 (L) *(Note 1)*	19.59%

Name of shareholder	Capacity	Number of issued ordinary shares held	Approximate Percentage of the issued share capital of the Company
Quantum China Asset Management Limited	Investment manager	87,646,000 (L) *(Note 2)*	5.49%
Yue Xiu Great China Fixed Income Fund VI LP	Beneficial owner	79,872,000 (L) *(Note 3)*	5.00%
Yue Xiu Investment Management Limited	Interest of controlled corporation	79,872,000 (L) *(Note 3)*	5.00%
Yue Xiu Investment Consultants Limited	Interest of controlled corporation	79,872,000 (L) *(Note 3)*	5.00%
Yue Xiu Securities Holdings Limited	Interest of controlled corporation	79,872,000 (L) *(Note 3)*	5.00%
Yue Xiu Enterprises (Holdings) Limited	Interest of controlled corporation	79,872,000 (L) *(Note 3)*	5.00%
Guangzhou Yuexiu Holdings Limited	Interest of controlled corporation	79,872,000 (L) *(Note 3)*	5.00%

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

Note 2: These 87,646,000 shares are the aggregate number of shares held by investment funds managed by Quantum China Asset Management Limited.

Note 3: Yue Xiu Great China Fixed Income Fund VI LP is managed by Yue Xiu Investment Management Limited (越秀投資管理有限公司), which is an indirect wholly-owned subsidiary of Yue Xiu Investment Consultants Limited (越秀投資諮詢有限公司), which is an indirect wholly-owned subsidiary of Yue Xiu Securities Holdings Limited (越秀證券控股有限公司), which is an indirect wholly-owned subsidiary of Yue Xiu Enterprises (Holdings) Limited (越秀企業(集團)有限公司), which is in turn an indirect wholly-owned subsidiary of Guangzhou Yuexiu Holdings Limited (廣州越秀集團有限公司), a state-owned enterprise in the PRC.

Note 4: The shareholding percentage in the Company is calculated on the basis of 1,596,539,766 Shares in issue as at 31 December 2015.

Note 5: The letter "L" denotes a long position in Shares.

DIRECTORS' RIGHTS TO ACQUIRES OR DEBENTURES

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

PERMITTED INDEMNITY PROVISION

Pursuant to the A.A, every Director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he or she may sustain or incur in or about the execution of the duties of his or her office or otherwise in relation thereto, and no Director or other officer shall be liable for any loss, damages or misfortune which may happen to or be incurred by the Company in the execution of the duties of his or her office or in relation thereto. The Company has arranged appropriate Directors' and officers' liability insurance coverage for the Directors and officers of the Company during the year.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

The Group's operations are mainly carried out by the subsidiaries of the Company in Hong Kong and the PRC while the shares of the Company are listed on the Stock Exchange. The Group's establishment and operations shall comply with the relevant laws and regulations in Hong Kong, the PRC and the relevant places of incorporation of the Company and its subsidiaries. In addition, the Company is required to comply with the Listing Rules and SFO. As far as the Board and the 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 and up to the date of this report, there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No Director nor any connected entity of a Director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which a controlling shareholder of the Company or any of the Company's subsidiaries or fellow subsidiaries was a party at any time during the year.

EQUITY-LINKED AGREEMENTS

Save for the Share Option Scheme adopted by the Company described below, the Group has not entered into any equity-linked agreements during the year.

MANAGEMENT CONTRACTS

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

CONNECTED TRANSACTIONS

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

RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Group are set out in note 46 to the financial statements.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

SHARE OPTION SCHEME

At the AGM of the Company held on 3 June 2011, the shareholders of the Company approved the adoption of the Company's New Share Option Scheme ("**Scheme**"). A summary of the principal terms of the Scheme, as disclosed in accordance with the Listing Rules on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") is as follows:

(i) Purpose

The purpose of the Scheme is to enable the Company to grant Options to selected Eligible Participants as incentive and/or rewards for their contribution and support to the Group and any Invested Entity and/or to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any Invested Entity. The basis of eligibility of any of the Participants to the grant of Options shall be determined by the Board from time to time on the basis of the Board's opinion as to his/her contribution or potential contribution to the development and growth of the Group.

(ii) Qualifying participants

Under the terms of the Scheme, the Directors of the Company may, at their discretion, grant options to the employees, executive or non-executive Directors, business associate, person or entity that provides research, development or other technological support to any shareholder of any member of the Group or any invested entity, any adviser or consultant to any owner of business or business development of any member of the Group or any invested entity (the "Eligible Participants").

(iii) Maximum number of shares

The scheme mandate limit for the Scheme allows the Company to issue a maximum of 41,033,176 share options under the Scheme, representing 2.57% of the issued share capital of 1,596,539,766 shares of the Company as at 31 December 2015.

(iv) Maximum entitlement of each Eligible Participant

Share options granted to connected person and its associates is subject to the approval of the INEDs. In addition, any grant of share options to a substantial shareholder or an INED or any of their respective associates, in excess of 0.1% of the shares of the Company in issue and with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, is subject to the approval of the shareholders of the Company in a general meeting.

The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes of the Company must not exceed 30% of the shares of the Company in issue from time to time. Subject to the shareholders' approval, the maximum number of shares in respect of which options may be granted under the Scheme shall not exceed 10% of the shares in issue as at the date of the approval, or the maximum number of shares in respect of which options may be granted to any Eligible Participants may not exceed 1% of the shares in issue from time to time in a 12-month period. Except for the entitlements of dividends, bonus, rights declared before the exercise of options, any shares allotted and issued on the exercise of an option will rank pari passu with the other shares in issue at the date of exercise of the relevant option.

(v) Option period

In respect of any particular option, such period commencing on the date of grant or such later date as the Directors may decide and expiring on such date as the Directors may determine, such period not to exceed 10 years from the date of grant.

(vi) Acceptance of offer

An offer of the grant of an option shall remain open for acceptance for a period of 21 days from the date of the letter containing the grant. An offer of the grant of the option shall be regarded as having been accepted when the duplicate of the grant letter duly signed by the grantee together with a remittance in favour of the Company of HK$1.00 by way of consideration for the grant thereof is received by the Company.

(vii) Subscription price

The subscription price in respect of any particular option shall be such price as the Directors may determine at the date of grant of the relevant option but shall be at least the highest of (i) the nominal value of the shares of the Company; (ii) the closing price of the shares of the Company on the Stock Exchange on the date of grant; and (iii) the average of the closing prices of the shares of the Company on the Stock Exchange for the five trading days immediately preceding the date of the grant of the option.

(viii) The remaining life of the Scheme

The Directors shall be entitled at any time within 10 years commencing on 3 June 2011 to offer the grant of an option to any Eligible Participant. The Scheme will expire on 2 June 2021.

Save for the Scheme, the Company did not have any other share option scheme as at 31 December 2015. From the date of the Scheme being adopted up to 31 December 2015, no options had been granted and remained outstanding under the Scheme of the Company.

PRE-EMPTIVE RIGHTS

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

PURCHASES, REDEMPTIONS OR SALES OF COMPANY'S LISTED SECURITIES

During the year ended 31 December 2015, the Company repurchased 1,792,000 shares of the Company on the Stock Exchange. The repurchased shares were cancelled. Details of the repurchased of shares by the Company are as follows:

Month of repurchase	No. of shares repurchased	Highest price per share (HK$)	Lowest price per share (HK$)	Aggregate price paid (HK$)
August 2015	1,792,000	1.50	1.49	2,684,954

Save as disclosed above, there were no purchases, redemptions or sales of the Company's listed securities by the Company or any of its subsidiaries during the year.

RETIREMENT SCHEMES

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

POST BALANCE SHEET EVENTS

Details of the post balance sheet events for the year are set out in note 48 to the consolidated financial statements.

SUFFICIENT OF PUBLIC FLOAT

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

AUDIT COMMITTEE

In accordance with the requirements of the Listing Rules, the Group established an audit committee comprising three INEDs of the Company. The Audit Committee of the Company has reviewed the audited consolidated financial statements for the year ended 31 December 2015. Information on the work of Audit Committee and its composition are set out in the Report of the Corporate Governance on page 41 of this Annual Report.

CHANGE IN INFORMATION OF DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of Directors of the Company subsequent to the date of the 2014 Annual Report required to be disclosed were (i) the discretionary bonus was paid to executive Directors in respect of the year ended 31 December 2015, details of emoluments of the Directors of the Company are set out in note 44 of this Annual Report; (ii) the updated biographic details of the Directors are set out on pages 29 to 30 of the annual report; and (iii) Ms. Chu Yin Yin, Georgiana, an executive director of the Company, was appointed as an INED of each Excel Development (Holdings) Limited (Stock code: 1372) and Sino Golf Holdings Limited (Stock code: 361) with effective 20 July 2015 and 24 August 2015, respectively. The shares of these companies are listed on the Main Board of the Stock Exchange.

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

CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on page 31 to 46 of this Annual Report.

CONFIRMATION OF INDEPENDENCE

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

ANNUAL GENERAL MEETING ("AGM")

The AGM of the Company will be held on Monday, 13 June 2016. Notice of AGM will be published on the websites of the Company (www.chinawaterind.com) and the Stock Exchange (www.hkexnews.hk), and will be despatched to the shareholders of the Company within the prescribed time and in such manner as required under the Listing Rules.

AUDITORS

On 28 October 2013, SHINEWING (HK) CPA Limited ("SHINEWING") resigned as the auditors of the Company. To fill the casual vacancy following the resignation of SHINEWING, Crowe Horwath (HK) CPA Limited (the "**Crowe Horwath (HK)**") has been appointed as the auditors of the Company with effect from 28 October 2013. Crowe Horwath (HK) will retire, being eligible and offer themselves for re-election. A resolution is to be proposed by the Company at the forthcoming AGM, to re-appoint Crowe Horwath (HK) as the auditor of the Company. In the preceding three years, the Company has only changed its auditors from SHINEWING to Crowe Horwath (HK).

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

Hong Kong, 29 March 2016

ABOUT THIS REPORT

China Water Industry Group Limited ("China Water Industry" or "the Group"), with the vision of "making the world endowed with clean water, blue sky and vivid green land", focuses on its core business in water supply, sewage treatment and exploitation and sale of renewable energy in Mainland China as an environmental protection enterprise.

This is our second Environmental, Social and Governance ("ESG") Report, covering the reporting period from 1 January 2015 to 31 December 2015, with an objective to outline our approaches, commitments and strategies to the sustainability development of the Group. In preparation of this report, we have followed the ESG Reporting Guide set out in Appendix 27 of the Rules Governing the Listing of Securities published by Hong Kong Exchanges and Clearing Limited ("HKEx") to make relevant disclosure of sustainability performance in material aspects of the guide during the reporting period. The scope of reporting covers the Group's headquarters and its operating companies, including the Group's core business segments in (i) water supply; (ii) sewage treatment; and (iii) exploitation and sale of renewable energy. The coverage of this report is selected based on stakeholder engagement and materiality assessment.

2015 signified a new stage of rapid development in the wake of three-year development plan formulated by management at the end of 2011. As a responsible corporate citizen, we continue to shoulder responsibility in being a positive force to the environment by integrating sustainability considerations into the decision-making process across all our operations.

We welcome any comments and suggestions with regard to this report and our sustainability performance. Please send us your feedback to info@chinawaterind.com.

STAKEHOLDER ENGAGEMENT

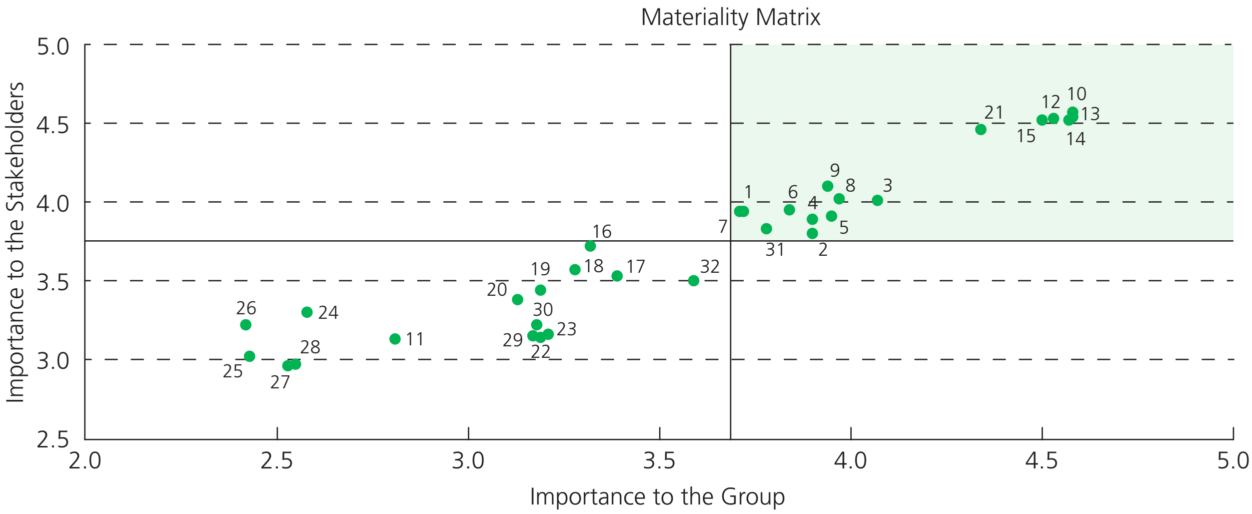
We believe that the support of stakeholder heavily tips the scale when it comes to long-term success of the Group. The key stakeholders of the Group, who are significantly influenced by or have the ability to influence our business, include employees, governments, shareholders, business partners, NGOs and community at large. Ongoing engagement with stakeholders enables us to better shape our business strategies to respond to their needs, mitigate risks and strengthen major relationships. With an aim to establish a good and harmonious relationship with our stakeholders, we strive to maintain communications with them both formally and informally through a wide variety of channels in our daily operations. Mutual trust and respect are developed in the course of these engagement exercises. The below table illustrates our engagement and communication methods with each group of stakeholders.

Stakeholder Group	Method of Engagement/Communication
Employees	• Annual performance appraisal • Meeting • Interview • Website • E-mail • Internal magazine • Workshop
Governments	• Meeting • Report • Site visit
Shareholders and Investors	• Financial report • Circulars and announcement • Press release • Annual/extraordinary general meeting • Website
Business Partners	• Meeting • Website • E-mail
NGOs	• Website • E-mail • Press release
Communities	• Site visit • Interview
Suppliers	• Website • Meeting • E-mail

Materiality Assessment

For the preparation of this report, we engaged our stakeholders to identify 16 material issues that were considered both important to both our stakeholders and to our business. The information collected in the course of stakeholder engagement serves as a good foundation for the structure of this report. It also provided important insights for us to take a more focused and proactive approach in managing the issues of highest concerns to our stakeholders.

Materiality Matrix



Issues considered

1. Equal opportunity and workforce structure
2. Employee turnover
3. Fatality rate
4. Work injury
5. Occupational health and safety
6. Training and development
7. Resources for training
8. Labour practice
9. Steps for elimination of malpractice of labour
10. Emission type and data
11. Green house gas emissions
12. Hazardous waste data
13. Non-hazardous waste data
14. Measures for mitigation of emissions
15. Handling of hazardous and non-hazardous wastes
16. Energy consumption
17. Water consumption
18. Energy use efficiency initiatives
19. Water efficiency initiatives
20. Packaging material used
21. Significant impacts of activities on the environment and natural resources
22. Supplier origin
23. Supplier practice
24. Product health and safety
25. Complaint handling
26. Intellectual property rights
27. Quality assurance
28. Consumer privacy
29. Anti-corruption practices
30. Whistle-blowing procedures
31. Contribution to community
32. Resources for community contribution

WORKPLACE QUALITY

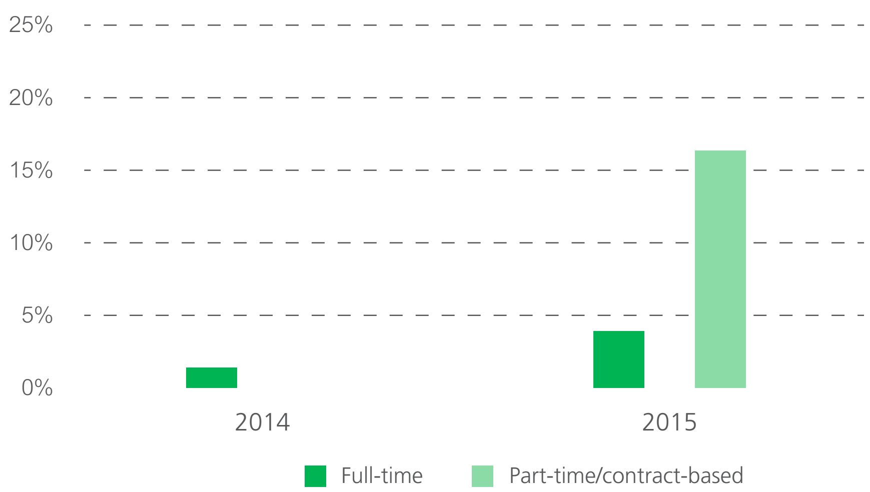
The Group regards our people as the most valuable assets. Aspiring to be the preferred employer in the industry, we are devoted to shaping a non-discriminating, diverse, fair and harmonious workplace in which our people are highly valued and respected. We deeply believe that recruiting and retaining top talents are of paramount importance for the sustainable development of the Group. In formulation of our human resources strategies, we have allocated ample resources in providing various trainings to our employees in the hope of developing their full potentials both personally and professionally in addition to attractive remuneration packages and promising career paths. We grow hand-in-hand for the benefits of individual employee and the long-term growth of the Group as a united body. Our project companies have developed staff handbooks outlining the standards and guidelines of which our employees are expected to follow. We strongly encourage open communication within the organization for successful execution of company policies and strategies.

Talent Acquisition and Retention

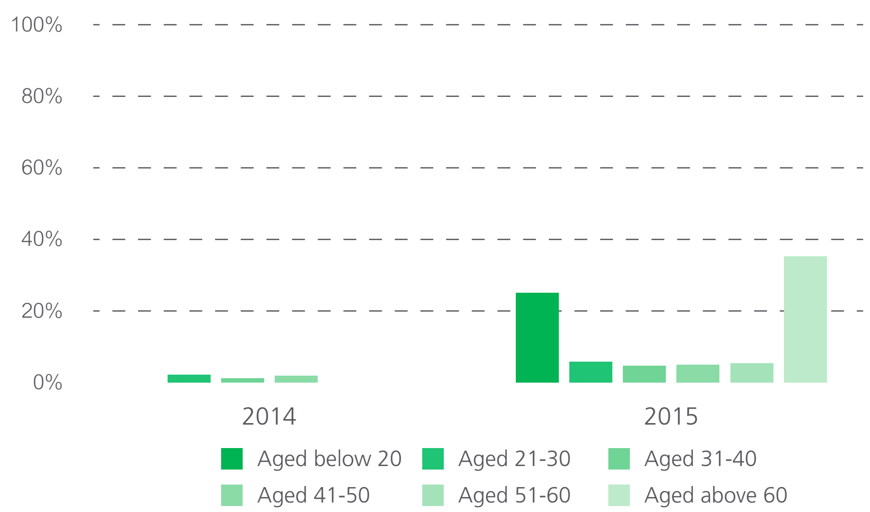
China Water Industry seeks and welcomes people with caliber. As of 31 December 2015, the Group employed a total of 1,128 staff across our business segments, including water supply, sewage treatment, construction services and exploitation and sale of renewable energy business. We strive to establish a workforce of diversity and competency. As an equal opportunity employer, only the qualifications, competencies, experiences and appropriateness for the positions are of our concern. To demonstrate our support for the development of the local communities in which we operate in, we strive to employ staff locally not only for enhancement of employment opportunities but also for a better grasp of the local needs and expectations.

We have established a comprehensive remuneration system and performance appraisal system for talent retention. Our employees receive regular review and appraisal of performance and development. We strictly comply with the Labour Law of China for the protection of welfare of staff in the People's Republic of China ("PRC"). On top of various standard employee benefits for full-time staff including social security scheme and leaves for paternity, funeral and sickness, different project companies offer different fringe benefits, for example, staff dormitory, festival bonus, travel allowance, communication allowance and working meal. We also offer internal transfer opportunities for them to acquire new experiences, skills and knowledges from the new role.

Staff Turnover by Employment Category



Staff Turnover by Age Group



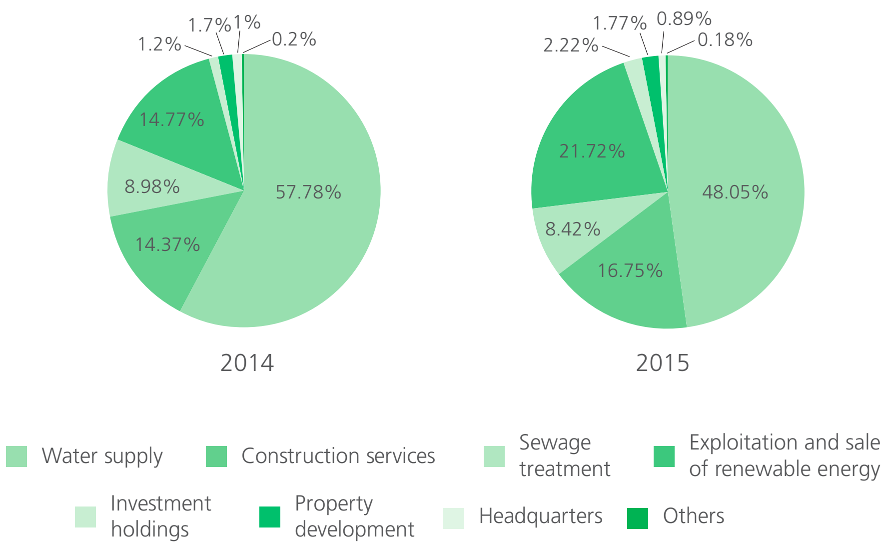
Equal Opportunities and Diversity

We believe that by aligning talents with various competencies and capabilities from different backgrounds, the Group grows from strength to strength. We are committed to establishing an inclusive, diverse and discrimination-free culture based on the values of fairness, dignity and respect. We provide equal opportunities and fair treatment for all job applicants and current employees irrespective of age, gender, race, color, descent, ethnic background, nationality, disability, veteran status, citizenship, religion, sexual orientation and marital status. Varieties and differences are intrinsic to the success and sustainable development of our business.

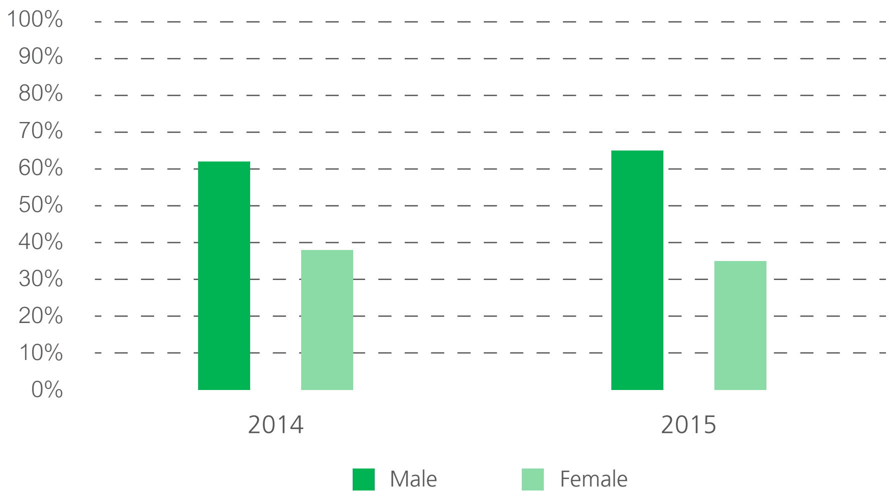
We adopt a zero tolerance approach to unethical labor practices including child labor and forced labor. We strive not only to comply stringently with the Labor Law of China and other applicable legal requirements but to exemplify best practice as a responsible employer.

As of 31 December 2015, our entire workforce included 733 male staff members and 395 female staff members, the vast majority of which were (full-time) employees. During the reporting period, there have been no reported cases of discrimination, child labor and forced labor.

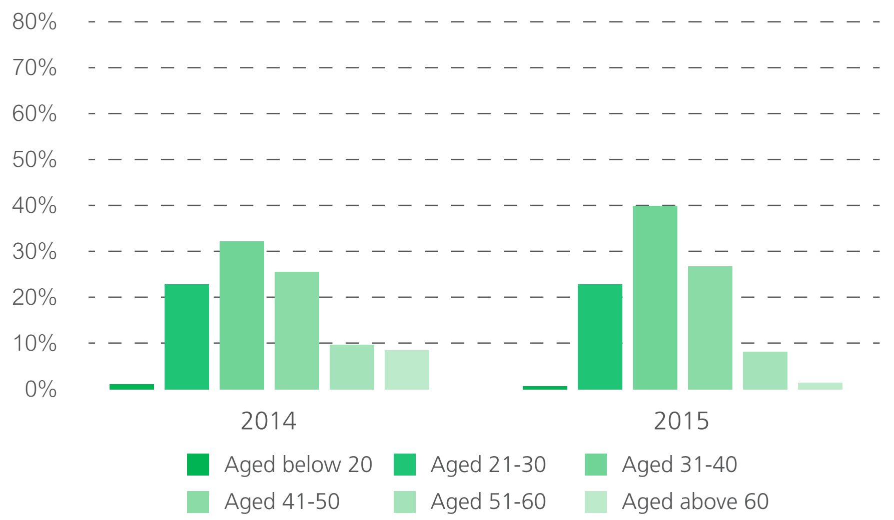
Distribution of Employee by Business Segment



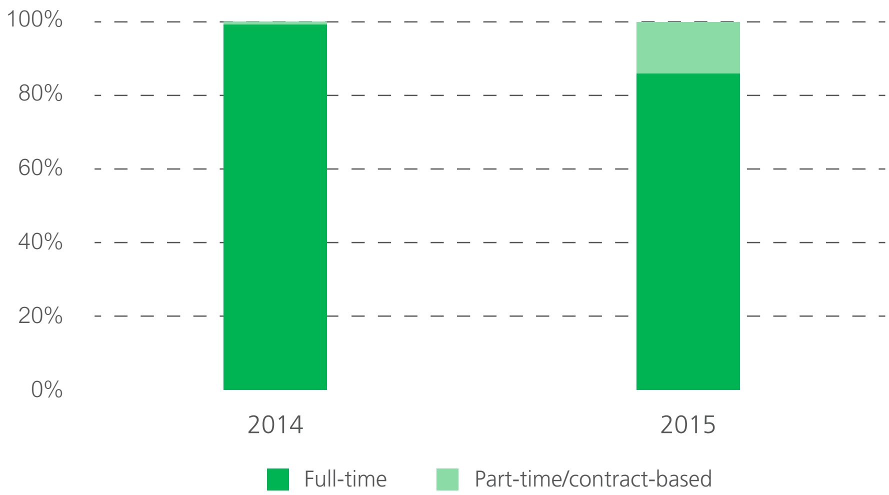
Distribution of Employee by Gender



Distribution of Employee by Age Group



Distribution of Employee by Employment Category



Staff Engagement and Well-being

The Group attaches great importance to creating a harmonious and pleasant working environment. We encourage open and direct communication between management and employees of all levels. Our project companies keep employees abreast of the latest news about the management policy and operational strategy through email, meeting and announcement and at the same time, understand the views and thoughts of them via face-to-face discussion and employee survey. Our periodical internal publication "Sound of Water" takes a further step to strengthen our intercommunication. It serves as a platform for staff to voice their opinions about our company and share their life experience and for the Group to update latest development and industry news.

We care about the psychological and physical well-being of our people. Our project companies organize a variety of recreational and sport activities like outings, training camps from time to time to advocate work-life balance among our employees. Moreover, team spirit, staff cohesion and sense of belonging have been augmented greatly through these programs.

Employee Training and Development

Our long-term success as an enterprise is underpinned by the skills, knowledge and capability of our engaged and delicate employees. They are who transform our visions into actions. Seeing employees as part of our family, we are determined to unlock their potential to the fullest in their life-long pursuit for excellence through an array of training and development programs. The Group believes that investing in our people is not only advantageous to their personal and career development but also to the sustainable and healthy growth of our businesses.

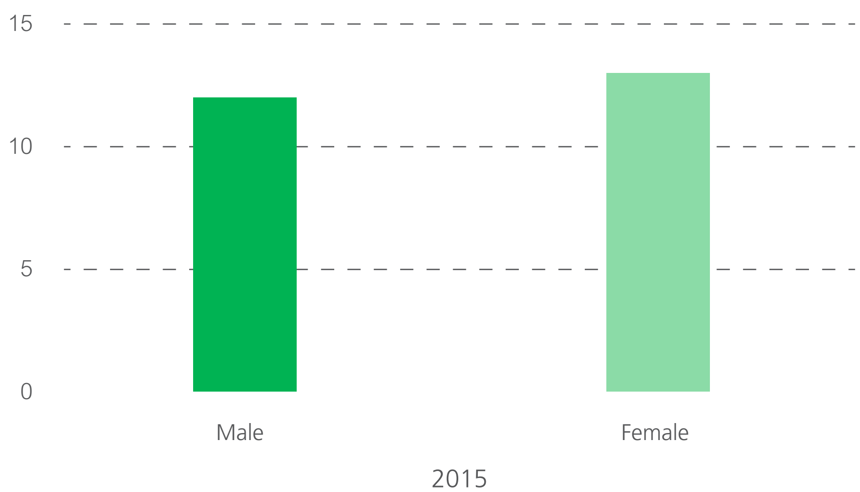
Inasmuch as the unique features and challenges across different business segments, specific training courses are developed to cater to the needs on professional knowledge and technical skills of different operating businesses.

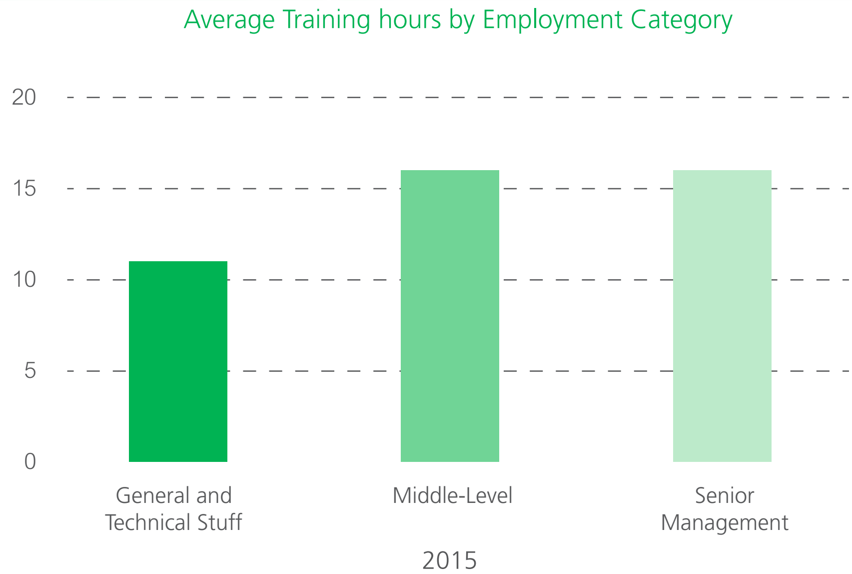
These training programs have been organized both internally and externally which can be classified into: (i) management and communication, (ii) regulations and compliance, (iii) technical knowledge, (iv) professional/certificate/license and (v) equipment usage. For more convenient and flexible access to training courses, some project companies set up online training school where training videos are uploaded for staff to have video lessons relevant to their positions and duties online anytime anywhere. Below are some of the training courses offered in 2015:

1. Electric dispatcher qualification training (provided by Electric Power Bureau)
2. Network access license of high voltage
3. Accounting and continuing education for account license
4. High pressure gas filling
5. Process flow of different operations
6. Water quality testing
7. Management and communication
8. Water charge management system
9. Simple management principles for senior management
10. Director's training

In 2015, on average, each employee received nearly 12 hours of training.

Average Training Hour by Gender





Occupational Health and Safety

Health and safety are the most pressing concerns across our business operations. As a responsible corporation, we spare no effort to maintain high standards of safety in all of our operating project companies in protection of our people. "Safety first – prevention is crucial" is the fundamental principle governing our safety management policy. In strict compliance with Fire Protection Law, Production Safety Law, Environmental Protection Law, Prevention and Control of Occupational Diseases Law, Regulations on the Safety Administration of Dangerous Chemicals of the People's Republic of China and other applicable national legislations and regulations, our operations have developed a comprehensive Environmental, Health and Safety (EHS) management system covering the key areas of fire safety, safety inspection, safety training, protective equipment & preventive gear distribution and emergency preparedness and response plan. We set up internal guidelines and systems to enhance the health and safety awareness among employees.

We are fully committed to offering a safe and healthy working environment to our employees by minimizing the health and safety risks posed to them. An operational safety team, led by the corresponding general manager, has been established in our project companies to oversee the general health and safety matters. A safety supervision officer is delegated to carry out regular inspection every day in a bid to root out latent dangers and minimize potential risks immediately. In some of our operation units, new employees are required to receive safety education of three levels and obtain a safety certificate through passing the relevant tests prior to formal commencement of work. Employees for special types of work are required to obtain Certificates for Special Operations issued by State Administration of Work Safety. We also provide them with sufficient precautionary measures and protective equipment to ensure their safety in daily operation. Posters, banners and signs are put up on eye-catching areas within our operating units as a reminder of work safety. Annual or biennial body check and occupational health check are offered to our employees depending on business nature. We believe that regular education and training play a vital role in raising and maintaining the occupational health and safety awareness among our people at all times. Below are some of the topics covered in training and talks in the reporting period:

- Production safety and corresponding laws and regulations
- Fire protection knowledge
- Prevention and control of occupational hazards at workplace
- Emergency management and rescue
- Safety use of equipment
- First-aid

Emergency Preparedness and Response

To augment the ability of emergency preparedness and response of our employees, all of our operating companies are required to carry out emergency drills and safety exercises periodically according to applicable national laws and regulations as well as emergency preparedness plans which cover a wide range of situations including but not limited to the below:

- Leakage of liquid chlorine
- Water pollution
- Natural disasters
- Heavy casualties
- Suspension of electricity supply
- Fire protection

In the event of any safety incident at work, our employees have to report and investigate the incident in accordance with the Group's policy. All employees must report to their supervisors in respect of any accident at work for immediate implementation of appropriate protective measures. In case of any unfortunate injury, we promise to provide the injured employee with support and assistance during treatment. During the reporting period, though there were no cases of fatality due to workplace accidents, we recorded a total of 83 absentee days due to work-related injuries. An investigation team has been set up to identify the cause of the injury and a series of tightened precautionary measures have been implemented to avoid similar incidents.

ENVIRONMENTAL PROTECTION AND GREEN OPERATION

As an enterprise principally engaged in environmental protection businesses, the Group, embracing the corporate mission of "making the world endowed with clean water, blue sky and vivid green land", is committed to shouldering the responsibility to combat the urgent problem of climate change. Integration of environmental, social and governance considerations into our core operational practices underpins the sustainable development of the Group and echoes with our obligation to protect the planet. To keep pace with the Group, all of our project companies are committed to mitigating the impacts on the environment in our daily operations with energy-saving and water-saving guidelines in place for employees to follow in favor of a low carbon economy. They seek to recycle used water after proper treatment for landscaping and road watering. Our garbage resources utilization projects pay special attention to energy conservation by optimizing the design of electrical systems and selecting energy-efficient production equipment.

We believe that sustainability encompasses not merely our environmental performance but also encapsulates the way we manage our business practices. The success of the Group relies upon the fundamental values of ethics, integrity, honesty and fairness. In addition to applicable national laws and regulations, the Group has established a series of internal control mechanisms and management systems to ensure the highest standard of business integrity across our operating units.

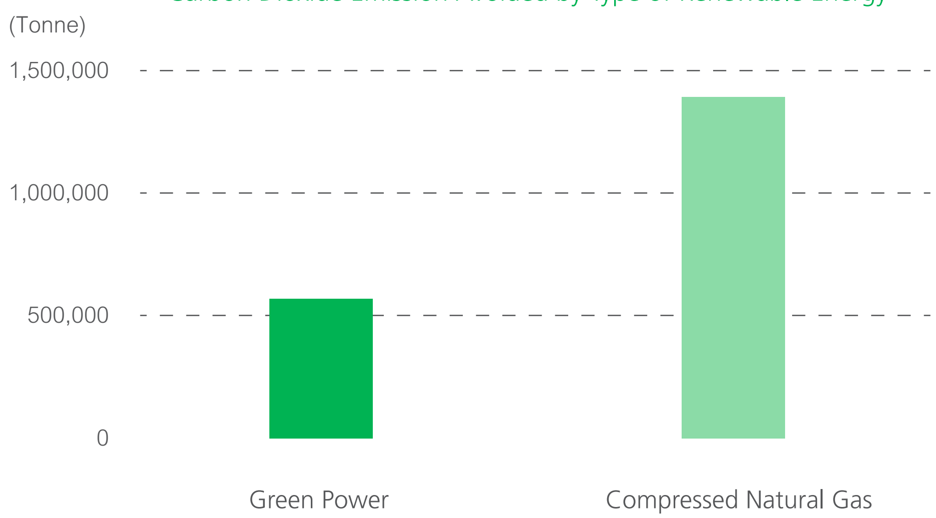
Exploitation and Sale of Renewable Energy

As an environmental protection corporation, the Group is committed to combat the intensifying environmental problem. Rapid economic development and ascendance in China has undoubtedly brought tremendous benefits to the country but it is not without its drawbacks. Air pollution, as one of the most threatening environmental and health issues generated, has been of key concern to China's leadership. The recent Report on the Work of Government has reiterated its strong support for the development of environmental protection industry as a major pillar of the economy with a focus on the advancement on clean and renewable alternative energy to achieve a breakthrough in green evolution and environmental protection.

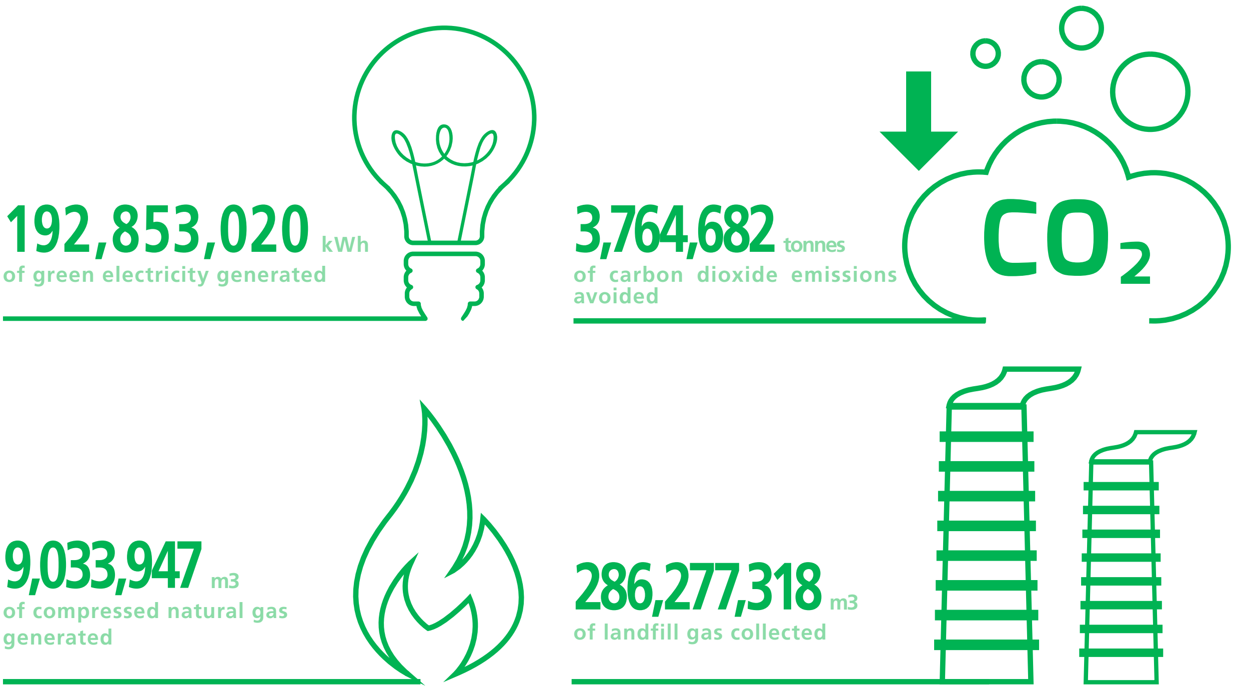
To resonate with national policy, the Group has been devoted to the development of green and renewable energy – biogas power generation and compressed natural gas ("CNG") by thoughtful utilization of garbage resources at landfills in a bid to make contribution to the construction of our beautiful Mother country. These garbage resources utilization projects have not only generated renewable electricity but have substantially alleviated the emissions of greenhouse gas from the waste at landfills. In essence, they have transformed trash into treasure, making a further stride to abate ecological footprints of human activities.

The Group endeavors to uphold the environmental safeguard mission of "Green China". Our project companies adopt high emission standards and strictly comply with applicable laws and regulations in the course of operation. They have developed a comprehensive environmental management system in accordance with the "Environmental Protection Law of the PRC" and "Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste" to ensure our operations meet with the required standards. Our biogas-to-power projects and biogas-to-GNC projects stringently follow flue gas emission limits as set under "Integrated Emission Standards of Air Pollutants" (GB16297-1996), "Emission Standards of Air Pollutant for Boilers" (GB13271-2014), "Emission standards for odor pollutants" (GB14554-93) and"Standard for Pollution Control on the Landfill Site of Municipal Solid Waste"(GB16889-2008). In terms of noise control, they meet Class-2 standards of the "Emission standard for industrial enterprises noise at boundary "(GB12348-2008) and Class-2 standards of the "Environmental quality standard for noise" to reduce the nuisance caused. In 2015, we have four biogas-to-power projects in operation, two located in Hunan, one in Jiangsu and the other one in Guangdong, generating a total of 95,083,020 kilowatt-hour of electricity through transmission of the power into city power grids. Meanwhile, two of our operating CNG projects, located in Guangdong and Hunan respectively, have generated a sum of 9,033,947 m^3 of CNG. These projects have together offset a total of 1,963,500 tonnes of CO2 in 2015, which has 9% increment compared with the CO2 reduction in 2014.

Carbon Dioxide Emission Avoided by Type of Renewable Energy



Since 2014, the environmental contributions brought by our renewable energy projects encompassed:



Clean Development Mechanism (CDM) and Chinese Certified Emission Reduction (CCER) Scheme

CDM is an internationally recognized trading mechanism while CCER Scheme is a domestic emission trading scheme for reducing greenhouse gas emissions. Their fundamental principles are to allow the transfer and acquisition of carbon credits. Through the sale of certified emission reductions (CERs), projects which successfully registered as CDM and CCER projects can enhance their image internationally and raise environmental and financial development of the country. China Water Industry has sought for opportunities for CDM and CCER projects.

Registered CDM projects
Shenzhen Xiaping Landfill Gas Collection and Utilization Project (深圳下坪固體廢棄物填埋場填埋氣體收集利用項目)
Zhuzhou Landfill Site LFG to Power Generation Project (株洲市垃圾填埋場填埋氣體發電項目)
Hunan Changsha Qiaoyi Landfill Gas Recovery and Electricity Generation Project (湖南長沙橋驛垃圾填埋氣發電項目)

Registered CCER projects	CCER application in progress
Hunan Changsha Qiaoyi Landfill Gas Recovery and Electricity Generation Project (湖南長沙橋驛垃圾填埋氣發電項目)	Qiaoyi Landfill Gas Integrated Utilization and Construction Project (橋驛垃圾填埋場富餘填埋氣綜合利用建設項目) Nanjing Jiaozishan Landfill-Gas-to Power Project (南京轎子山垃圾填埋場填埋氣發電項目)

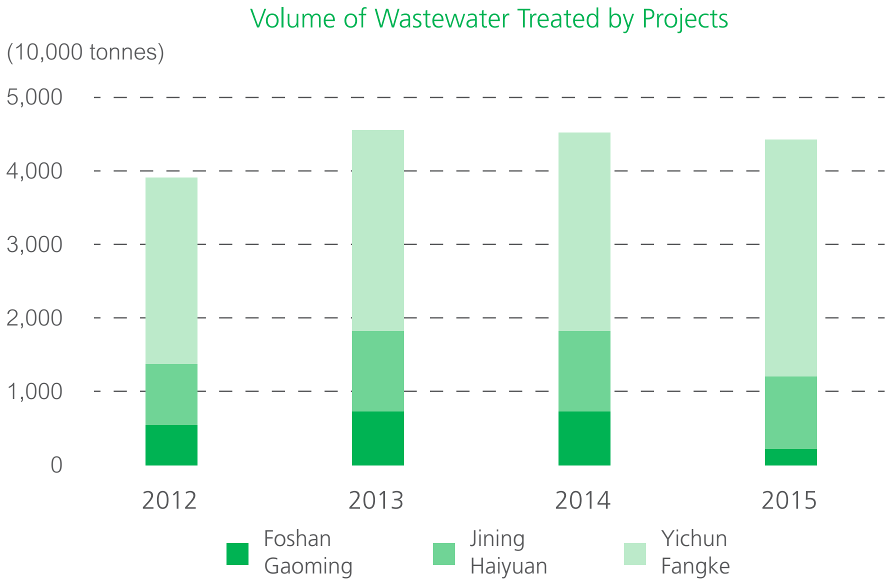
Technology Research and Development

When it comes to the sustainable development of our green energy segment, we attach great importance to research and development. It further enhances our environmental protection performance. The Group has been augmenting our technical capabilities by collaboration with leading university, institute and company in the area of development and utilization of landfill gas and renewable energy. We have entered into strategic cooperation agreements with Nanjing University and Nanjing Carbon Recycle Biomass Technology Company Limited earlier. In 2015, we signed an agreement with Chinese Academy of Engineering, jointly establishing the urban solid waste processing workstation. Led by academician Mr. Chen Yong, an energy and environmental expert, dedicated in the development of theoretical research and engineering development in energy generation from organic waste and resource, the expert team has a number of technical achievements in the field of energy and environmental protection projects. The establishment of the workstation would bring along great opportunities for development of our business. Directed by the needs of our project companies, we would achieve technological advancement built upon scientific and technical research with the aid of top talents and technology of our nation. In return, the technical know-how of our internal talents could be enhanced and our core competitiveness in efficient use of garbage resources could also be upgraded through innovation.

With technological and managerial advancement for comprehensive landfill gas collection, the project company in Shenzhen has attained outstanding achievements in 2015. It has attained a biogas collection efficiency of up to 90% with collecting rate of over 17,000m^3/h, which is 4,000 m^3/h higher than the rate in 2014. In 2015, this project alone has collected 130,000,000 m^3 of landfill gas, 129% higher than the volume in 2014, which has aided to offset 1,190,000 tonnes of CO2 emissions, 120% more than the amount in 2014. The project has achieved "zero emission" in terms of flue gas, waste water and other environmental pollutants during project operation. In addition to the "Shenzhen Environmental Protection Engineering Technology" qualification certificate, the "Environmental Protection Science and Technology Award", the "Pollution Control Facility Operating Service" capacity assessment certificate and the "National Award for Advanced Enterprise in Market-oriented Environmental Pollution Control Facility Operation" granted by Ministry of Environmental Protection of the State earlier, the project company has been certified with ISO 14001 and ISO 9001 to prove our dedication in meeting international standards of environmental management system and quality management system. In addition, six new patents were granted to this company in 2015.

Sewage Treatment

We have 3 sewage treatment projects, located in Jiangxi's Yichun, Shandong's Jining and Guangdong's Foshan respectively. They are dedicated to the removal of contaminants from wastewater and production of environmentally safe treated effluent. In 2015, we treated a total of 44,270,640 tonnes of sewage and reduced 8,176.7 tonnes of COD emission.

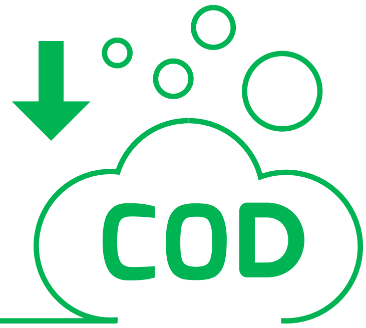


Our sewage treatment plants strive to ensure that all wastewater is treated and discharged in accordance with "Discharge Standard of Pollutants for Municipal Wastewater Treatment Plant" (GB 18918-2002) issued by Ministry of Environmental Protection of the PRC. Guangdong's Foshan sewage treatment project has further implemented the"Discharge Limits of Water Pollutants" (DB44/26-2001) to ensure that all treated effluent would not cause negative impact to ecological balance and human health. Out project companies discharge treated effluent to designated locations according to agreements signed with the government.

Since the commissioning of first sewage treatment projects in 2007

270,353,707 tonnes
of sewage treated

47,060 tonnes
of COD reduced



Total volume of treated water discharged by destinations in 2015 (tonnes)

River/Ocean	Municipal sewage pipelines	Total
42,040,288	2,230,352	44,270,640

Appropriate treatment of sludge is of our concern. We recycle sludge by making bricks for construction through burning or for fertilization after solar sludge drying process. Part of the sludge, after a dewatering procedure to reduce water content and volume, will be sent to landfills designated by the government.

Total volume of treated sludge discharged by disposal method in 2015 (tonnes)

Landfills	Fertilization	Brick-making	Total
9,781	2,150	10,571	22,502

Water Supply

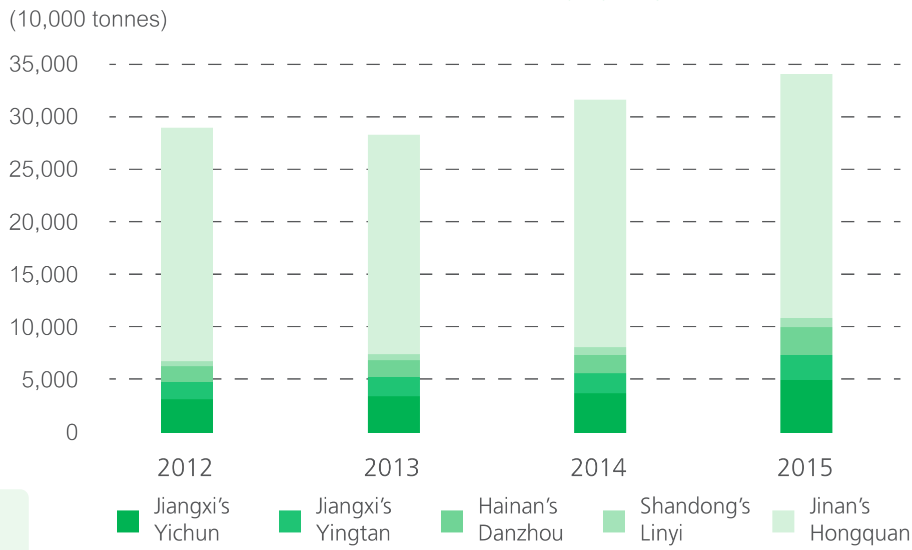
Five water supply projects of the Group, situated in Jiangxi's Yichun, Jiangxi's Yingtan, Hainan's Danzhou, Shandong's Linyi and Jinan's Hongquan respectively, supplied a total of 340,987,500 tonnes of water in 2015.

Insomuch as domestic water directly affects the health of our users, control of water quality from source to users' taps is the top priority of our water supply projects. We strictly adhere to "Environmental Quality Standards for Surface Water" (GB3838-2002) and"Quality Standards for Ground Water" (GB/T 14848-93) for control on water source. We carry out careful water quality tests periodically to ensure safe, clean and reliable water supply to users in accordance with "Standards for Drinking Water Quality" (GB5749-2006), "Water Quality Standards for Urban Water Supply" (CJ/T206-2005) and "Water Quality Management Provisions for Urban Water Supply". The waterworks project in Jinan's Hongquan has obtained ISO 14001 and ISO 9001 to exemplify our endeavors to match up with international standards of environmental management system and quality management system.

Access to safe drinking water is essential to public health. All of our water supply project companies pay great attention to safety of water treatment processes. In order to ensure that water is treated under a safe environment, security management measures are stepped up to prevent potential contamination and health-associated risks around sanitary protection zone of water. We offer regular training and education to employees to enhance their health and safety awareness, danger alertness and operational skills. It is a prerequisite for new operational employees to obtain health certificate. More importantly, we offer annual medical checkup for all operational staff to ensure employee health.

Our water supply project companies provide 24-hour hotline service throughout the year. The customer service officers are there to provide one-stop quality services on general enquiries, emergent incidents and feedbacks around–the-clock. A time-limit completion system for repair of water pipeline network leakage, setting out the response time for provision of emergency repair and investigation according to the degree of water pipe explosion, breakage or leakage has been established.

Volume of Water Supply by Projects



OPERATIONAL PRACTICES

The Group believes that a robust governance framework forms a solid foundation for our approach to sustainable development and growth. We hold ourselves to uncompromising ethical and legal standards with the fundamental qualities of integrity, honesty and fairness deep-seated in our culture. To bring all our operations in line with the Group's commitment to the high standards of corporation governance, we have a series of internal mechanisms and guidelines in compliance with applicable laws and regulations in place. These extend to our day-to-day business conduct, our employees policies, our supply chain policies, our environmental protection practices and our commitment to social responsibility and the wider communities.

The Code of Conduct ("CoC") details our expectations on employee behaviors with regard to a range of ethical issues and professional conducts encompassing our zero-tolerance position on bribery, corruption, discrimination and other forms of immoral conducts. All employees are expected to adhere to our CoC and no cases of corruption were recorded during the reporting period.

We work with business partners and suppliers that follow environmentally-friendly and socially-responsible practices. At a minimum, we expect them to operate with integrity, treat their people fairly and ensure compliance with all applicable laws and regulations. We seek to work with local suppliers in the communities where we operate whenever possible. To this end, we contribute to the local economy and reduce the distances for materials or goods to travel to get to our operating sites, thereby reducing our environmental footprint.

COMMUNITY CONTRIBUTION

As an outstanding enterprise in China, the Group has always put efforts into committing our responsibility to social contribution and environment protection. Through making active contribution ranging from charity donation and community visit to volunteer work and environmental protection activities, we adhere to our corporate philosophy of "passing on love with water and serving with heart" in our best effort. Being passionate for charity, we aim at serving the communities where we operate by creating an inclusive and harmonious society and shouldering our sustained and long-term social commitments. With the concerted efforts of all of our project companies, we work closely with the communities in order to provide loving care and financial assistance to the needy. While ensuring our services to be in compliance with national environmental standards, we also strongly promote environmental activities in the hope of achieving our corporate visions of "Making the world endowed with clean water, blue sky and vivid green land" and "Green Earth, Beautiful China" by raising the general awareness towards environmental protection.

Environmental Promotion

With the domestic and international consensus, the Group has been making their best effort in promoting environmental protection through implementing greening initiatives and foster public education.

Greening has become an important means in constructing an environmentally friendly society as well as a better living environment. To provide a better work environment to workers, Jining City Haiyuan Water Treatment Co. Ltd has turned idled areas in factory sites into greened areas and farming garden. To make the most out of the greening initiative, the company used food remains as fertilizer to plant vegetables and fruits. Besides, Hainan Danzhou Water Co. Ltd turned words into action by planting over 600 trees in nearby areas. With great support and effort from workers, the replenished areas resulted in a healthier and harmless working area to workers.

Jinan Hongquan Water Production Co. Ltd, Jinan TV and Jinan Municipal Administration and Public Utilities Bureau co-organized an exhibition in Jinan for public to provide education on water consumption and Q&A session in response to recent water quality and safety problems. Production technology experts, laboratory assistants and environmental professionals settled the general concern by residents. At the same time, they listened to valuable opinions from the public in view of improving the service quality and satisfying everyone's need.

Charity Donation

Financial assistance is always viewed as a direct method to provide help and support to people in need. During the year, some employees of the Group and their relatives suffered from critical illnesses. Our group leaders have given their great attention and taken the lead to launch donation activities. All staff of the Group was generous and extended their helping hands to the families of the victims.

In order to unite employees to work on the donation in one, some subsidiaries organized campaigns to show their supports to people in need. For example, Yichun Fangke Sewage Treatment Co. Ltd launched the "Charity Donation Day" encouraging their staff to donate their daily salary on the particular event day for charity. Jinan Hongquan Water Production Co. Ltd also organized the "Good Deed a Day" event to provide financial assistance for needy residents. Besides, Shenzhen City Li Sa Industrial Development Limited and Yichun Water Supply Co., Ltd supported vulnerable children and elderly by initiating donation campaigns. Since the launch of campaigns, the companies successfully raised funds for young child who was burnt in an accident, poverty students, ill patients and single-living elderly.

Community Visit

The Group has been dedicated to community visit so as to relieve social distress and improve mental wellness in response to public concern. The Group showed their love and support to the community apart from solely providing financial support. For instance, Nan Jing Fung Sheng gave a helping hand to residents with financial needs during Chinese New Year.

Yichun Water Supply Co., Ltd also participated in the community events, organizing employees to pay visits to difficult families so as to demonstrate our warm love and care with financial support. Furthermore, Linyi Fenghuang Water Industry Co Ltd and Jinan Hongquan Water Production Co. Ltd actively visited the elderly in community and provided regular assistance and care for needy residents.

Volunteer Work

We constantly believe helping and serving others is one of the greatest sources of happiness. Yichun Fangke Sewage Treatment Co. Ltd joined "New Day Foster Home" events organized by Yuanzhou Volunteers Association on weekend regularly. Through a diversity of volunteer works, the company helped raise fund for orphans with medical needs. Jinan Hongquan Water Production Co. Ltd also actively participated in cleaning up garbage scattered along roads on the ground of improving the environment of scenic spots and promoting environmental care and good hygiene among visitors. Additionally, Hainan Danzhou Water Co. Ltd gave financial support to community and assistance in water pipe constructions so as to solve the water quality and safety problem.

AWARDS AND HONOURS

China Water Industry has gained support, recognition and acknowledgement from various sectors through "passing on love with water and serving with heart". Below are the awards and honours received by the Group and project companies in 2015:

China Water Industry Group Limited

- The 5th International Carbon-Value Award- Carbon-Value Ecological Practice Award
- Best Investment Value Award for Listed Enterprise 2015

New China Water (Nanjing) Renewable Resources Investment Company Limited* (Formerly Known as Greenspring (Nanjing) Recycling Resources Investment Co., Ltd.)

- Solid Waste Industry Pioneer Enterprise Award

Yichun Fangke Sewage Treatment Co. Ltd

- National Youth Civilization

Jining City Haiyuan Water Treatment Co. Ltd

- Company Advanced in Mitigating Pollutants in Eleventh Five-Year Plan

Yichun Water Industry Co., Ltd

- Grade "AA" in Contract Credit Rating awarded by Yi Chun Administration for Industry and Commerce
- Security Organization Advanced in Internal Security awarded by Yichun's Public Security Bureau
- Company Advanced in Promotional Work awarded by the Urban Management Bureau
- Outstanding Organization in Grassroots Care

Hainan Danzhou Water Co. Ltd

- Best Taxpayer by Local Tax Bureau

OUTLOOK

With the corporate vision of "making the world endowed with clean water, blue sky and vivid green land", over the years, the Group has endeavored to be a leader in environmental protection industry by making substantial contributions to the development of a sustainable and green future. The Group's core values are encapsulated in our motto "passing on love with water and serving with heart" (以水傳情, 用心服務), a philosophy that underpins our approach to sustainability. "Heart" and "love" represent not only our dedication in environmental protection and contribution to the wider community, but also our commitments to core business practices and building relationships with our stakeholders.

Looking forward, we will seek to further integrate ESG considerations into our business strategies in pursuit of improvement in sustainability performance. One of the key strides orchestrating our plan is to seize new investment opportunities to expand our market presence in the area of garbage resource utilization in forms of biogas-to-power, biogas-to-CNG and other environmental-friendly renewable energies. To this end, we abate human ecological footprint by transformation of trash to treasure through considerable reduction in detrimental greenhouse gas emissions from landfills in one end and equally importantly, we resonate with the Government's development plan to build a green China.

We would like to take this opportunity to extend our heartfelt gratitude to our shareholders and other stakeholders for their long-term support and trust to the Group. The feedbacks from different parties are of great value to us in shaping our business strategy to better respond to their needs. We will continue to strive to implement the best practices in corporate social responsibility to advance the world's sustainability agenda at large.

INDEPENDENT AUDITOR'S REPORT

Crowe Horwath™

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

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

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

We have audited the consolidated financial statements of China Water Industry Group Limited ("the Company") and its subsidiaries (collectively "the Group") set out on pages 82 to 208, 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, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

BASIS FOR QUALIFIED OPINION

The Group had investments in listed equity securities in Hong Kong with a carrying value of HK$29,898,000 as at 31 December 2013. The trading of these securities was suspended during the year ended 31 December 2013. The directors of the Company considered that there was no material change in the fair value of the listed equity investments. However, there were no satisfactory audit procedures which we could adopt to ascertain the fair value of these available-for-sale investments as at 31 December 2013. Our opinion on the current year's consolidated financial statements is modified because of the possible effect of this matter on the comparability of the current year's figures and the corresponding figures in the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income.

QUALIFIED OPINION

In our opinion, except for the possible effects on the corresponding figures of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at 31 December 2015, and of their 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.

Crowe Horwath (HK) CPA Limited
Certified Public Accountants
Hong Kong, 29 March 2016

Sum Yuk Fan, Sharon
Practising Certificate Number P04967

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2015

	Note	2015 HK$'000	2014 HK$'000
Revenue	7	**528,586**	507,963
Cost of sales		**(343,566)**	(308,573)
Gross profit		**185,020**	199,390
Other operating income	9	**52,273**	30,990
Gain on disposal of subsidiaries	38	**–**	116,783
Reversal of impairment loss recognised on an associate	23	**33,540**	–
Reversal of impairment loss recognised on trade and other receivables	25	**359**	337
Selling and distribution expenses		**(30,931)**	(29,286)
Administrative expenses		**(140,306)**	(146,300)
Finance costs	10	**(8,842)**	(21,670)
Change in fair value of investment property	19	**410**	605
Change in fair value of derivative financial instruments	33	**46**	31,482
Net (loss) gain on financial assets at fair value through profit or loss		**(90,631)**	94,747
Net gain on disposal of available-for-sale investments		**12,716**	40,647
Impairment loss recognised on:–			
– property, plant and equipment	16	**(1,622)**	–
– concession intangible assets	18	**(6,384)**	–
– goodwill	20	**(4,066)**	(6,964)
– other intangible assets	20	**(874)**	–
– available-for-sale investments	21	**(58,537)**	(16,353)
– trade and other receivables	25	**(161)**	(3,059)
Share of profits of associates	23	**7,332**	61
(Loss) profit before taxation		**(50,658)**	291,410
Income tax	11	**(19,940)**	(61,775)
(Loss) profit for the year	12	**(70,598)**	229,635
Attributable to:			
Owners of the Company		**(97,497)**	203,622
Non-controlling interests		**26,899**	26,013
		(70,598)	229,635
(Loss) earnings per share (HK cents):	15		
Basic		**(6.56)**	16.50
Diluted		**(6.56)**	14.11

The notes on pages 90 to 208 form part of these financial statements.

	Note	2015 HK$'000	2014 HK$'000
(Loss) profit for the year		**(70,598)**	229,635
Other comprehensive income for the year			
Items that may be reclassified subsequently to profit or loss:			
Exchange difference on translation of financial statements of overseas subsidiaries:–			
Exchange difference arising during the year		**(86,509)**	(6,010)
Reclassification adjustments relating to subsidiaries disposed of during the year		**–**	(11,471)
		(86,509)	(17,481)
Available-for-sale investments:			
Net (loss) gain arising on revaluation of available-for-sale investments during the year		**(22,777)**	15,147
Reclassification upon impairment		**58,537**	16,353
Reclassification adjustments relating to available-for-sale investments disposed of during the year		**(12,716)**	(40,647)
		23,044	(9,147)
Share of other comprehensive income of associates	23	**(5,775)**	(558)
Other comprehensive income for the year, net of income tax		**(69,240)**	(27,186)
Total comprehensive income for the year		**(139,838)**	202,449
Attributable to:			
Owners of the Company		**(125,770)**	179,503
Non-controlling interests		**(14,068)**	22,946
		(139,838)	202,449

The notes on pages 90 to 208 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2015

	Note	2015 HK$'000	2014 HK$'000
Non-current assets			
Property, plant and equipment	16	**277,405**	159,310
Deposits paid for acquisition of property, plant and equipment		**60,609**	5,282
Deposits paid for acquisition of subsidiaries	48	**29,843**	–
Prepaid lease payments	17	**22,189**	25,110
Concession intangible assets	18	**549,083**	546,766
Investment property	19	**–**	21,457
Other non-current assets	19	**20,711**	–
Other intangible assets	20	**173,093**	176,111
Available-for-sale investments	21	**181,424**	26,016
Interest in associates	23	**74,660**	39,563
Deferred tax assets	36	**7,096**	1,327
		1,396,113	1,000,942
Current assets			
Inventories	24	**204,383**	184,036
Financial assets at fair value through profit or loss	21	**220,061**	238,527
Trade and other receivables	25	**305,606**	171,682
Prepaid lease payments	17	**1,053**	1,053
Amounts due from customers for contract works	28	**13,463**	12,898
Tax recoverable		**4,111**	–
Cash held by financial institutions	26	**923**	5,268
Bank balances and cash	26	**475,950**	318,798
		1,225,550	932,262
Current liabilities			
Trade and other payables	27	**306,042**	157,947
Amounts due to customers for contract works	28	**112,180**	58,421
Bank borrowings	29	**29,007**	49,258
Other loans	30	**203,982**	13,619
Amounts due to non-controlling shareholders of subsidiaries	31	**27,903**	59,532
Loans from associates	32	**3,130**	4,657
Convertible bonds	33	**–**	103,519
Tax payables		**31,550**	38,495
		713,794	485,448
Net current assets		**511,756**	446,814
Total assets less current liabilities		**1,907,869**	1,447,756

At 31 December 2015

	Note	2015 HK$'000	2014 HK$'000
Capital and reserves			
Share capital	*34*	**798,270**	666,166
Share premium and reserves		**512,557**	273,411
Equity attributable to owners of the Company		**1,310,827**	939,577
Non-controlling interests		**341,732**	330,417
TOTAL EQUITY		**1,652,559**	1,269,994
Non-current liabilities			
Bank borrowings	*29*	**103,852**	33,598
Other loans	*30*	**79,627**	59,270
Government grants	*35*	**17,256**	19,237
Deferred tax liabilities	*36*	**54,575**	65,657
		255,310	177,762
		1,907,869	1,447,756

Approved and authorised for issue by the board of directors on 29 March 2016:

Wang De Yin
Chairman and Chief Executive Officer

Liu Feng
Director

The notes on pages 90 to 208 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

	Attributable to owners of the Company									
	Share capital *HK$'000* *(note 34(b))*	Share premium *HK$'000* *(note 34(c))*	Revaluation reserve *HK$'000* *(note 3(g))*	Translation reserve *HK$'000* *(note 34(c))*	Reserve fund *HK$'000* *(note 34(c))*	Investment revaluation reserve *HK$'000* *(note 34(c))*	Accumulated losses *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total equity *HK$'000*
Balance at 1 January 2014	555,166	484,002	3,553	56,618	22,326	9,147	(587,138)	543,674	282,827	826,501
Changes in equity for 2014:										
Profit for the year	–	–	–	–	–	–	203,622	203,622	26,013	229,635
Other comprehensive income for the year:										
Exchange difference arising on translation	–	–	–	(2,943)	–	–	–	(2,943)	(3,067)	(6,010)
Reclassification adjustments relating to disposal of interests in subsidiaries *(note 38)*	–	–	–	(11,471)	–	–	–	(11,471)	–	(11,471)
Share of other comprehensive income of associates	–	–	–	(558)	–	–	–	(558)	–	(558)
Fair value gain on available-for-sale investments	–	–	–	–	–	15,147	–	15,147	–	15,147
Reclassification on impairment of available-for-sale investments	–	–	–	–	–	16,353	–	16,353	–	16,353
Reclassification adjustments relating to available-for-sale investments disposed of during the year	–	–	–	–	–	(40,647)	–	(40,647)	–	(40,647)
Total comprehensive income for the year	–	–	–	(14,972)	–	(9,147)	203,622	179,503	22,946	202,449
Placing of new shares	111,000	111,000	–	–	–	–	–	222,000	–	222,000
Transaction costs attributable to issue of shares	–	(5,600)	–	–	–	–	–	(5,600)	–	(5,600)
Capital contribution from non-controlling shareholders of a subsidiary	–	–	–	–	–	–	–	–	20,152	20,152
Capital contribution from non-controlling shareholders of a newly incorporated subsidiary	–	–	–	–	–	–	–	–	3,392	3,392
Acquisition of subsidiaries *(note 37)*	–	–	–	–	–	–	–	–	8,457	8,457
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	(7,357)	(7,357)
Transfers to reserve funds	–	–	–	–	7,359	–	(7,359)	–	–	–
At 31 December 2014	666,166	589,402	3,553	41,646	29,685	–	(390,875)	939,577	330,417	1,269,994

	Attributable to owners of the Company									
	Share capital *HK$'000* *(note 34 (b))*	Share premium *HK$'000* *(note 34(c))*	Revaluation reserve *HK$'000* *(note 3(g))*	Translation Reserve *HK$'000* *(note 34(c))*	Reserve fund *HK$'000* *(note 34(c))*	Investment revaluation reserve *HK$'000* *(note 34(c))*	Accumulated losses *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total equity *HK$'000*
Balance at 1 January 2015	666,166	589,402	3,553	41,646	29,685	–	(390,875)	939,577	330,417	1,269,994
Changes in equity for 2015:										
Loss for the year	–	–	–	–	–	–	(97,497)	(97,497)	26,899	(70,598)
Other comprehensive income for the year:										
Exchange difference arising on translation	–	–	–	(45,542)	–	–	–	(45,542)	(40,967)	(86,509)
Share of other comprehensive income of associates	–	–	–	(5,775)	–	–	–	(5,775)	–	(5,775)
Fair value loss on available-for-sale investments	–	–	–	–	–	(22,777)	–	(22,777)	–	(22,777)
Reclassification on impairment of available-for-sale investments	–	–	–	–	–	58,537	–	58,537	–	58,537
Reclassification adjustments relating to available-for-sale investments disposed of during the year	–	–	–	–	–	(12,716)	–	(12,716)	–	(12,716)
Total comprehensive income for the year	–	–	–	(51,317)	–	23,044	(97,497)	(125,770)	(14,068)	(139,838)
Placing of new shares	133,000	367,080	–	–	–	–	–	500,080	–	500,080
Transaction costs attributable to issue of shares	–	(376)	–	–	–	–	–	(376)	–	(376)
Repurchase of shares	(896)	(1,788)	–	–	–	–	–	(2,684)	–	(2,684)
Capital contribution from non-controlling shareholders of a subsidiary	–	–	–	–	–	–	–	–	25,383	25,383
Transfers upon resumption of property (note 19)	–	–	(3,553)	–	–	–	3,553	–	–	–
At 31 December 2015	798,270	954,318	–	(9,671)	29,685	23,044	(484,819)	1,310,827	341,732	1,652,559

The notes on pages 90 to 208 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	2015 *HK$'000*	2014 *HK$'000*
Operating activities		
(Loss) profit before taxation	**(50,658)**	291,410
Adjustments for:		
Depreciation of property, plant and equipment	**14,691**	13,279
Amortisation of prepaid lease payments	**1,443**	1,297
Amortisation of concession intangible assets	**26,663**	32,412
Amortisation of other intangible assets	**10,498**	3,899
Impairment loss recognised on:		
– property, plant and equipment	**1,622**	–
– concession intangible assets	**6,384**	–
– goodwill	**4,066**	6,964
– other intangible assets	**874**	–
– available-for-sale investments	**58,537**	16,353
– trade and other receivables	**161**	3,059
Reversal of impairment loss recognised on an associate	**(33,540)**	–
Reversal of impairment loss recognised on trade and other receivables	**(359)**	(337)
Concession intangible assets written off	**–**	608
Change in fair value of investment property	**(410)**	(605)
Change in fair value of derivative financial instruments	**(46)**	(31,482)
Finance costs	**8,842**	21,670
Interest income	**(7,886)**	(19,233)
Fund dividend income	**(10,435)**	–
Reversal of government grants	**–**	4,920
Government grant income	**(6,224)**	(214)
(Gain) loss on disposal of property, plant and equipment and prepaid land lease	**(225)**	82
Net gain on disposal of available-for-sale investments	**(12,716)**	(40,647)
Net loss (gain) on financial assets at fair value through profit or loss	**90,631**	(94,747)
Gain on disposal of subsidiaries	**–**	(116,783)
Share of profits of associates	**(7,332)**	(61)
Changes in working capital:		
Increase in inventories	**(12,730)**	(114,133)
(Increase) decrease in trade and other receivables	**(130,187)**	34,337
Increase in amounts due from customers for contract works	**(565)**	(4,108)
Increase in trade and other payables	**93,566**	29,249
Increase in amounts due to customers for contract works	**53,759**	46,728
Cash generated from operations	**98,424**	83,917
Income taxes paid	**(45,301)**	(43,967)
Net cash generated from operating activities	**53,123**	39,950

	Note	2015 HK$'000	2014 HK$'000
Investing activities			
Purchase of property, plant and equipment		**(81,785)**	(81,694)
Deposits paid for acquisition of property, plant and equipment		**(55,327)**	(5,010)
Proceeds from disposal of property, plant and equipment and prepaid lease payment		**3,199**	600
Acquisition of concession intangible assets		**(59,604)**	(58,830)
Acquisition of other intangible assets		**(19,794)**	(29,010)
Purchase of available-for-sale investments		**(249,889)**	(26,879)
Proceeds from disposal of available-for-sale investments		**66,459**	111,791
Purchase of financial assets at fair value through profit or loss		**(144,604)**	(203,434)
Proceeds from disposal of financial assets at fair value through profit or loss		**38,108**	59,654
Acquisition of subsidiaries, net of cash acquired	*37*	**(13,844)**	(82,974)
Disposal of subsidiaries, net of cash disposed of	*38*	**88,304**	126,773
Deposits paid for acquisition of subsidiaries	*48*	**(31,070)**	–
Capital contribution to an associate		**–**	(7,540)
Interest received		**9,381**	19,233
Dividend received from an associate		**–**	2,233
Loan to a third party		**(47,748)**	–
Repayment of loan from a third party		**5,453**	–
Government grants received		**5,298**	214
Refund of government grants received		**–**	(61,804)
Net cash used in investing activities		**(487,463)**	(236,677)
Financing activities			
Proceeds from new bank borrowings and other loans		**350,923**	58,207
Repayment of bank borrowings and other loans		**(74,970)**	(51,953)
Advances from non-controlling shareholders of a subsidiary		**–**	55,729
Repayments to non-controlling shareholders of a subsidiary		**(31,629)**	–
Capital contribution from non-controlling shareholders		**25,383**	23,544
Dividend paid to non-controlling shareholders of a subsidiary		**–**	(7,357)
Advance from associates		**–**	1,092
Repayments to associates		**(1,352)**	–
Proceeds from issue of new shares		**499,704**	216,400
Repurchase of own shares		**(2,684)**	–
Redemption of convertible bonds		**(104,500)**	(104,500)
Proceeds from issue of convertible bonds		**–**	100,000
Interest paid		**(25,941)**	(17,899)
Net cash generated from financing activities		**634,934**	273,263
Net increase in cash and cash equivalents		**200,594**	76,536
Cash and cash equivalents at 1 January		**324,066**	250,564
Effect of foreign exchange rates changes		**(47,787)**	(3,034)
Cash and cash equivalents at 31 December		**476,873**	324,066
Analysis of the balance of cash and cash equivalents			
Cash held by financial institutions		**923**	5,268
Bank balances and cash		**475,950**	318,798
Cash and cash equivalents at 31 December		**476,873**	324,066

The notes on pages 90 to 208 form part of these financial statements.

1. GENERAL

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

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

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 22.

2. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

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

Amendments to HKAS 19	Employee Benefits: Defined Benefit Plans: Employee Contributions
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2010-2012 Cycle
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2011-2013 Cycle

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

Amendments to HKAS 19 – Employee Benefits: Defined Benefit Plans: Employee Contributions

The amendments introduce a relief to reduce the complexity of accounting for certain contributions from employees or third parties under defined benefit plans. When the contributions are eligible for the practical expedient provided by the amendments, a company is allowed to recognise the contributions as a reduction of the service cost in the period in which the related service is rendered, instead of including them in calculating the defined benefit obligation.

The amendments do not have an impact on these financial statements as the Group has no defined benefit plans.

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

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

Annual Improvements to HKFRSs 2010-2012 Cycle and 2011-2013 Cycle

These two cycles of annual improvements contain amendments to nine standards with consequential amendments to other standards. Among them, HKAS 24, Related Party Disclosures has been amended to expand the definition of a "related party" to include a management entity that provides key management personnel services to the reporting entity, and to require the disclosure of the amounts incurred for obtaining the key management personnel services provided by the management entity. These amendments do not have an impact on the Group's related party disclosures as the Group does not obtain key management personnel services from management entities.

The adoption of the improvements made in the 2010-2012 Cycle has required additional disclosures in the segment note. Other than that, the remaining amendments are not material to the Group.

(b) New Hong Kong Companies Ordinance (Cap. 622)

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation during the financial year, and as a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2015 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates.

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

– investment property (note 19)

– available-for-sale investments (note 21)

– financial assets at fair value through profit or loss (note 21)

– embedded derivatives in convertible bonds (note 33)

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Business combinations

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Goodwill

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

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

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

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

(e) Investments in subsidiaries and non-controlling interests

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

Changes in the Group's ownership interests in existing subsidiaries

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Investments in associates

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Property, plant and equipment

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

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

Buildings	Over the shorter of the term of the lease, or 30 years
Plant and machinery	5 to 10 years
Leasehold improvements	Over the shorter of the term of the lease, or 5 to 10 years
Motor vehicles	5 to 8 years
Water pipeline	15 to 25 years

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

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

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

(i) Investment property

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Concession intangible assets

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

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

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

(k) Exclusive rights

The Company and its subsidiaries acquired the exclusive rights of collection and utilization of landfill gas in connection with the acquisitions of Nanjing Feng Shang New Technology Limited Liability Company ("Nanjing Feng Shang"), Shenzhen City Li Sai Industrial Development Limited ("Shenzhen Li Sai"), Hunan Huiming Environmental Technology Limited ("Huiming Technology") and Hunan Feng Ming Energy Technology Limited ("Hunan Feng Ming"). The exclusive rights were initially recognized at fair value at the acquisition date. The rights have an original period of 12 years, 17 years, 9 years and 15 years, respectively. These rights, together with exclusive rights acquired separately with finite period (notes 20 and 22), are carried at cost less accumulated amortisation and any accumulated impairment losses (note 3(p)).

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

(l) Leasehold land and buildings for own use

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Construction contracts

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

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

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

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

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

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Investment in other financial assets

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

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

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

Available-for-sale financial assets are subsequently carried at fair value. Changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Impairment of assets

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Impairment of assets *(Continued)*

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Impairment of assets *(Continued)*

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

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

(ii) Impairment of other assets

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

– property, plant and equipment;

– prepaid lease payments;

– goodwill;

– concession intangible assets;

– other intangible assets;

– deposits paid;

– other non-current assets; and

– investments in subsidiaries in the Company's statement of financial position.

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

– Calculation of recoverable amount

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Impairment of assets *(Continued)*

(ii) Impairment of other assets (Continued)

– Recognition of impairment losses

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

– Reversals of impairment losses

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

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

(q) Inventories

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

(i) Properties held for/under development for sale

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Inventories *(Continued)*

(ii) Trading goods

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

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

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

(r) Trade and other receivables

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

(s) Cash and cash equivalents

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

(t) Borrowings

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

(u) Trade and other payables

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) Convertible bonds

(i) Convertible bonds that contain liability and equity components

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

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

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

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

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

(ii) Other convertible bonds

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) Convertible bonds *(Continued)*

(ii) Other convertible bonds (Continued)

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

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

(w) Derivative financial instruments

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

(x) Equity-settled share-based payment transactions

(i) Share options granted to employees

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

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

(ii) Share options granted to eligible persons

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(y) Other employee benefits

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

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

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

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

(ii) Termination benefits

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

(z) Government grants

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(aa) Taxation

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(aa) Taxation *(Continued)*

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

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

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

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

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

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

  – the same taxable entity; or

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(bb) Revenue recognition

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

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

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

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

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

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

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

Revenue from the construction of water supply and sewage treatment plants under 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.

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

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

Sales and distribution of natural gas are recognised when the gas is used by the customers. Revenue is recognised when goods are delivered to the customers.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(bb) Revenue recognition *(Continued)*

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

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

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

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

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

(cc) Foreign currencies

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(cc) Foreign currencies *(Continued)*

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

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

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

(dd) Leased assets

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

(i) Classification of assets leased to the Group

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(dd) Leased assets *(Continued)*

(ii) Operating lease charges

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

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

(ee) Borrowing costs

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

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

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

(ff) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

(i) Financial guarantees issued (Continued)

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within trade and other payables. The fair value of financial guarantees issued at the time of issuance is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

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

(ii) Other provisions and contingent liabilities

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

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

(gg) Related parties

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

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

(ii) has significant influence over the Group; or

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(gg) Related parties *(Continued)*

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

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

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

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

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

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

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

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

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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

(hh) Segment reporting

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

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

(ii) Equity instruments

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Critical judgments in applying the entity's accounting policies

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

Impairment of available-for-sale investments

The Group determines that available-for-sale investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the duration and extent to which the fair value of the investment is less than its cost. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, change in technology and operational and financing cash flows. As at 31 December 2015, the carrying amount of available-for-sale investments was approximately HK$181,424,000 (2014: HK$26,016,000).

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

Key sources of estimation uncertainty

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

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

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

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

As at 31 December 2015, the carrying amount of plant and equipment was approximately HK$277,405,000 (net of accumulated impairment loss of approximately HK$1,558,000) (2014: the carrying amount of plant and equipment was approximately HK$159,310,000 (net of accumulated impairment loss of approximately HK$nil)). Determining whether property, plant and equipment are impaired requires an estimation of the recoverable amount of the property, plant and equipment. Such estimation was based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results.

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

As at 31 December 2015, the carrying amount of prepaid lease payments was approximately HK$23,242,000 (net of accumulated impairment loss of approximately HK$nil) (2014: the carrying amount of prepaid lease payments was approximately HK$26,163,000 (net of accumulated impairment loss of approximately HK$nil)). Determining whether prepaid lease payments are impaired requires an estimation of the recoverable amount of the prepaid lease payments. Such estimation was based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results.

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

Key sources of estimation uncertainty *(Continued)*

(iv) Impairment loss recognised in respect of trade receivables

The Group performs ongoing credit evaluations of its customers and adjusts credit limits based on payment history and the customer's current credit-worthiness, as determined by review of their current credit information. The Group continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses based upon its historical experience. Credit losses have historically been within the Group's expectations and the Group will continue to monitor the collections from customers and maintain an appropriate level of estimated credit losses. As at 31 December 2015, the carrying amount of trade receivables was approximately HK$35,679,000 (2014: HK$30,253,000) (net of accumulated impairment losses of approximately HK$2,331,000 (2014: HK$5,659,000)).

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

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2015, the carrying amounts of other receivables and loans receivables are HK$72,731,000 (2014: HK$11,435,000) and HK$57,298,000 (2014: HK$15,003,000) respectively (net of accumulated impairment losses of HK$10,466,000 (2014: HK$4,265,000) and HK$54,844,000 (2014: HK$54,844,000) respectively).

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

The Group determines whether an asset is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the asset is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. A change in the estimated future cash flows and/or the discount rate applied will result in an adjustment to the estimated impairment provision. As at 31 December 2015, the carrying amounts of concession intangible assets are HK$549,083,000 (2014: HK$546,766,000) (net of accumulated impairment losses of HK$20,747,000 (2014: HK$15,435,000)). As at 31 December 2015, the carrying amounts of exclusive rights are HK$152,073,000 (2014: HK$150,330,000) (net of accumulated impairment losses of HK$839,000 (2014: nil)).

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

Key sources of estimation uncertainty *(Continued)*

(vii) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2015, the carrying amount of goodwill was HK$21,020,000 (2014: HK$25,781,000) (net of accumulated impairment losses of HK$238,193,000 (2014: HK$247,613,000)). Details of impairment testing on goodwill are set out in note 20.

(viii) Revenue from construction contracts

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

(ix) Deferred tax assets

Deferred income tax assets relating to temporary differences and tax losses are recognised when management expects it is probable that future taxable profits will be available to utilise against the temporary differences or tax losses. Where the expectations are different from the original estimates, such differences will impact the recognition of deferred income tax assets in the period in which such estimates have been changed.

5. CAPITAL MANAGEMENT

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

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

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

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

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

The gearing ratios as at 31 December 2015 and 2014 were as follows:

	2015	2014
	HK$'000	*HK$'000*
Bank borrowings	**132,859**	82,856
Other loans	**283,609**	72,889
Amounts due to non-controlling shareholders of subsidiaries	**27,903**	59,532
Loans from associates	**3,130**	4,657
Convertible bonds	**–**	103,519
Total debt	**447,501**	323,453
Less: Cash held by financial institutions	**(923)**	(5,268)
Bank balances and cash	**(475,950)**	(318,798)
Cash and cash equivalents	**(476,873)**	(324,066)
Net debt	**(29,372)**	(613)
Equity attributable to owners of the Company	**1,310,827**	939,577
Gearing ratio	**Not applicable**	Not applicable

6. FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS

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

(a) Credit risk

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

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

(iii) The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

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

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

(a) Credit risk *(Continued)*

(v) As at 31 December 2015, the Group had credit risk on loan receivables. The carrying amount of the loan receivables are approximately HK$57,298,000 (2014: HK$15,003,000) (net of accumulated impairment losses of HK$54,844,000 (2014: HK$54,844,000)), which were due from two (2014: one) unrelated parties.

(vi) As at 31 December 2015, the Group had credit risk arising from its financial assets, such as cash held at financial institutions, financial assets at fair value through profit or loss and available-for-sale investments. The Group limited its exposure to credit risk by transacting the majority of its securities with broker-dealers and regulated exchanges with high credit rating of which the Group considered to be well established. All transactions in listed securities are settled/paid for upon delivery using approved and reputable brokers.

(vii) The Group does not provide any guarantees which would expose the Group to credit risk.

(b) Liquidity risk

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

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

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

(b) Liquidity risk *(Continued)*

2015

	On demand HK$'000	Within 1 year HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	More than 5 years HK$'000	Total contractual undiscounted cash flow HK$'000	Carrying amount HK$'000
Non-derivative financial liabilities							
Trade and other payables	32,490	147,839	–	–	–	180,329	180,329
Bank borrowings and other loans	11,399	235,894	28,747	79,356	90,956	446,352	416,468
Amounts due to non-controlling shareholders	27,903	–	–	–	–	27,903	27,903
Loans from associates	–	3,322	–	–	–	3,322	3,130
	71,792	387,055	28,747	79,356	90,956	657,906	627,830

2014

	On demand HK$'000	Within 1 year HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	More than 5 years HK$'000	Total contractual undiscounted cash flow HK$'000	Carrying amount HK$'000
Non-derivative financial liabilities							
Trade and other payables	31,989	68,433	–	–	–	100,422	100,422
Bank borrowings and other loans	21,734	42,551	21,020	18,093	65,165	168,563	155,745
Amounts due to non-controlling shareholders	59,532	–	–	–	–	59,532	59,532
Loans from associates	1,351	3,592	–	–	–	4,943	4,657
Convertible bonds	–	104,500	–	–	–	104,500	103,519
	114,606	219,076	21,020	18,093	65,165	437,960	423,875

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

(c) Market risk

(i) Currency risk

Exposure to currency risk

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

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

	Exposure to foreign currencies (expressed in HK$)			
	2015		2014	
	United States Dollars	**Renminbi**	United States Dollars	Renminbi
	'000	***'000***	*'000*	*'000*
Assets	**36**	**4,309**	225	4,116

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

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

(c) Market risk *(Continued)*

(i) Currency risk (Continued)

Sensitivity analysis

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

	2015		2014	
	Increase (decrease) in foreign exchange rates	**Decrease (increase) in loss after tax and accumulated losses** *HK$'000*	Increase (decrease) in foreign exchange rates	Increase (decrease) in profit after tax and decrease (increase) in accumulated losses *HK$'000*
Renminbi	**5%**	**180**	5%	172
	(5)%	**(180)**	(5)%	(172)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' (loss) profit after tax and equity measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2014.

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

(c) Market risk *(Continued)*

(ii) Interest rate risk

The Group is primarily exposed to fair value interest rate risk in relation to bank borrowings, other loans, amounts due to non-controlling shareholders of subsidiaries, loans from associates and convertible bonds (see notes 29, 30, 31, 32 and 33 for details) for the years ended 31 December 2015 and 2014. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated.

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

	2015 Effective interest rates %	**2015** HK$'000	2014 Effective interest rates %	2014 HK$'000
Fixed rate borrowings:				
Bank borrowings	**5.94%-6.30%**	**56,462**	5.94%-7.38%	33,094
Other loans	**0%-20%**	**272,865**	0%-20%	60,637
Amounts due to non-controlling shareholders of subsidiaries	**0%**	**27,903**	0%	59,532
Loans from associates	**4.35%-5.60%**	**3,130**	0%-6.15%	4,657
Convertible bonds	**–**	**–**	30.21%	103,519
		360,360		261,439
Variable rate borrowings:				
Bank borrowings	**4.90%-6.80%**	**76,397**	6.50%-7.40%	49,762
Other loans	**4.91%-6.19%**	**10,744**	6.45%-6.88%	12,252
		87,141		62,014
Total borrowings		**447,501**		323,453
Fixed rate borrowings as a percentage of total borrowings		**81%**		81%

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

(c) Market risk *(Continued)*

(ii) Interest rate risk (Continued)

Sensitivity analysis

As 31 December 2015, it is estimated that a general increase/decrease of 50 basis points (2014: 50 basis points) with all other variables held constant, would have increased/decreased the Group's loss for the year (2014: decreased/increased the Group's profit for the year) and increased/decreased the accumulated losses by approximately HK$327,000 (2014: HK$261,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate borrowings.

The sensitivity analysis above has been determined based on the exposure to interest rates at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. The 50 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next annual reporting period. The analysis is performed on the same basis as 2014.

(iii) Equity price risk

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

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

(c) Market risk *(Continued)*

(iii) Equity price risk (Continued)

Sensitivity analysis

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

Available-for-sale investments

At 31 December 2015, if the prices of the respective available-for-sale investments had been 10% (2014:10%) higher/lower, the investment revaluation reserve would increase/decrease by HK$18,143,000 (2014: HK$2,602,000), as a result of the changes in fair value of available-for-sale investments.

Financial assets at fair value through profit or loss

At 31 December 2015, if the prices of the respective financial assets at fair value through profit or loss had been 10% (2014:10%) higher/lower, loss for the year would decrease/increase by HK$22,006,000 (2014: profit for the year would increase/decrease by HK$19,917,000) as a result of the changes in fair value of financial assets at fair value through profit or loss.

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

(i) Financial instruments carried at fair value

Fair value hierarchy

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

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

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

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

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

Fair value hierarchy *(Continued)*

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

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

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

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

Information about the valuation techniques and inputs used in determining the fair value of the conversion option of the convertible bonds are disclosed in note 33 to the financial statements.

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

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

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

	2015				2014			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
	$'000	***$'000***	***$'000***	***$'000***	*$'000*	*$'000*	*$'000*	*$'000*
Recurring fair value measurements								
Assets								
Available-for-sale investments								
– Listed	**146,409**	**–**	**–**	**146,409**	26,016	–	–	26,016
– Unlisted	**–**	**–**	**35,015**	**35,015**	–	–	–	–
Financial assets at fair value through profit or loss								
– Listed	**105,133**	**–**	**–**	**105,133**	59,260	–	–	59,260
– Unlisted	**–**	**–**	**114,928**	**114,928**	–	–	179,267	179,267
Liabilities								
Conversion feature of the convertible bond	**–**	**–**	**–**	**–**	–	–	46	46

During the years ended 31 December 2015 and 2014, there were no significant transfers between instruments levels.

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

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

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

Information about Level 3 fair value measurements:–

	Valuation technique	Unobservable inputs	Input values
Available-for-sale investments			
Unlisted US dollar based investment funds	Net asset value	n/a	n/a
Financial assets at fair value through profit or loss			
Unlisted US dollar based investment funds	Net asset value	n/a	n/a
Derivative financial instruments			
Derivatives component embedded in convertible bonds	Binomial lattice model	Expected volatility	27.57%

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

At 31 December 2014, the fair value of conversion feature of the convertible bonds was valued by estimating the value of the whole bond with and without the embedded derivatives.

As for the change in Level 3 instruments for the years ended 31 December 2015 and 2014, please refer to notes 21 and 33.

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

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

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

(ii) Financial instruments carried at other than fair value

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

The carrying amounts of the Group's other financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2015 and 2014.

7. REVENUE

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

	2015 *HK$'000*	2014 *HK$'000*
Water supply services	**119,061**	159,217
Sewage treatment services	**48,381**	45,763
Water supply related installation and construction income	**235,875**	222,490
Water supply and sewage treatment infrastructure construction income *(note 18)*	**58,690**	60,803
Sale of electricity	**29,984**	19,690
Sale of compressed natural gas	**27,529**	–
Service income from collection of landfill gas	**9,066**	–
	528,586	507,963

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

8. SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by a mixture of both business lines (products and services) and geography. In a manner consistent with the way in which information is reported internally to the board of directors of the Company being the chief operating decision maker for the purposes of resource allocation and performance assessment, the Group has presented the following two reportable segments. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

The Group has identified the following reportable segments:

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

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

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

8. SEGMENT REPORTING *(Continued)*

Segment revenue and results

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

For the year ended 31 December 2015

	Provision of water supply, sewage treatment and construction services *HK$'000*	Exploitation and sale of renewable energy *HK$'000*	Total *HK$'000*
Reportable segment revenue	**462,007**	**66,579**	**528,586**
Reportable segment profit	**115,279**	**3,121**	**118,400**
Unallocated corporate expenses			**(26,598)**
Interest income			**36**
Imputed interest on convertible bonds			**(1,027)**
Interest on fixed coupon bonds			**(5,063)**
Change in fair value of derivative financial instruments			**46**
Net loss on financial assets at fair value through profit or loss			**(90,631)**
Net gain on disposal of available-for-sale investments			**12,716**
Impairment loss recognised on available-for-sale investments			**(58,537)**
Loss before taxation			**(50,658)**

8. SEGMENT REPORTING *(Continued)*

Segment revenue and results *(Continued)*

For the year ended 31 December 2014

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

8. SEGMENT REPORTING *(Continued)*

Other segment information

For the year ended 31 December 2015

	Provision of water supply, sewage treatment and construction services HK$'000	Exploitation and sale of renewable energy HK$'000	Corporate HK$'000	Total HK$'000
Interest income	7,737	113	36	7,886
Interest expenses	(1,473)	(1,279)	(6,090)	(8,842)
Share of profits of associates	7,332	–	–	7,332
Depreciation of property, plant and equipment	(4,199)	(8,629)	(1,863)	(14,691)
Amortisation of:				
– Prepaid lease payments	(1,443)	–	–	(1,443)
– Concession intangible assets	(26,663)	–	–	(26,663)
– Other intangible assets	–	(10,498)	–	(10,498)
Gain on disposal of property, plant and equipment and prepaid lease payments	225	–	–	225
Net gain on disposal of available-for-sale investments	–	–	12,716	12,716
Impairment loss recognised on:				
– Trade and other receivables	(161)	–	–	(161)
– Available-for-sale investments	–	–	(58,537)	(58,537)
– Goodwill	(3,328)	(738)	–	(4,066)
– Concession intangible assets	(6,384)	–	–	(6,384)
– Other intangible assets	–	(874)	–	(874)
– Property, plant and equipment	–	(1,622)	–	(1,622)
Reversal of impairment loss on associates	33,540	–	–	33,540
Reversal of impairment loss recognised on trade and other receivables	359	–	–	359
Additions to non-current assets	136,472	178,036	1,381	315,889

8. SEGMENT REPORTING *(Continued)*

Other segment information *(Continued)*

For the year ended 31 December 2014

	Provision of water supply, sewage treatment and construction services *HK$'000*	Exploitation and sale of renewable energy *HK$'000*	Corporate *HK$'000*	Total *HK$'000*
Interest income	18,773	–	460	19,233
Interest expenses	(3,462)	(457)	(17,751)	(21,670)
Share of profits of associates	61	–	–	61
Gain on disposal of subsidiaries	116,783	–	–	116,783
Depreciation of property, plant and equipment	(6,590)	(4,598)	(2,091)	(13,279)
Amortisation of:				
– Prepaid lease payments	(1,297)	–	–	(1,297)
– Concession intangible assets	(32,412)	–	–	(32,412)
– Other intangible assets	–	(3,899)	–	(3,899)
Loss on disposal of property, plant and equipment and prepaid lease payments	(82)	–	–	(82)
Concession intangible assets written off	(608)	–	–	(608)
Impairment loss recognised on:				
– Trade and other receivables	(3,059)	–	–	(3,059)
– Goodwill	(6,964)	–	–	(6,964)
– Available-for-sale investments	–	–	(16,353)	(16,353)
Reversal of impairment loss recognised on trade and other receivables	337	–	–	337
Additions to non-current assets	111,073	197,381	2,048	310,502

Segment revenue reported above represents revenue generated from external customers. There were no inter-segments sales in the current year (2014: nil).

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

8. SEGMENT REPORTING *(Continued)*

Other segment information *(Continued)*

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

For the years ended 31 December 2015 and 2014, the Group does not have any single significant customer with the transaction value of 10% or more of the revenue.

9. OTHER OPERATING INCOME

	2015	2014
	HK$'000	*HK$'000*
Interest income on:		
– bank deposits	**1,338**	1,566
– loans *(notes (a) and (b))*	**6,548**	17,667
Total interest income on financial assets not at fair value through profit or loss	**7,886**	19,233
Fund dividend received *(note 21)*	**10,435**	–
Government grants *(note 35)*	**6,224**	214
Consultancy fee income	**12,543**	5,753
Handling charges	**1,718**	1,440
Cleaning income	**1,568**	601
Repair services income	**3,366**	721
Gross rentals from investment property *(note 40)*	**1,370**	1,417
Late surcharge income	**630**	754
Gain (loss) on disposal of property, plant and equipment and prepaid lease payments, net	**225**	(82)
VAT refund	**5,279**	–
Others	**1,029**	939
	52,273	30,990

Notes:

(a) During 2015, the Group earned interest income of HK$6.5 million (2014: HK$7.5 million) on loans to two (2014: one) unrelated parties (note 25), which bears fixed interest at approximately 36% per annum.

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

10. FINANCE COSTS

	2015 HK$'000	2014 HK$'000
Interest on:		
– convertible bonds *(note 33)*	**1,027**	43,399
– bank borrowings	**6,921**	6,963
– other loans	**15,619**	2,274
– loan from an associate	**–**	387
Total borrowing cost	**23,567**	53,023
Less: interest capitalised included in construction in progress	**(14,725)**	(31,353)
	8,842	21,670

Included in construction-in-progress under concession intangible assets, property, plant and equipment and properties under development for sale is interest capitalised during the year of HK$14,725,000 (2014: HK$31,353,000) at the capitalisation rate of 6.98% (2014: 15.48%) per annum.

11. INCOME TAX EXPENSE

	2015 HK$'000	2014 HK$'000
Current tax – Hong Kong Profits Tax		
– Provision for the year	**–**	4,300
– Over provision in respect of prior years	**(409)**	–
Current tax – PRC Enterprise Income Tax ("EIT")		
– Provision for the year	**36,735**	26,825
– (Over) under provision in respect of prior years	**(2,081)**	1,908
– PRC EIT on disposal of subsidiaries *(note 38)*	**–**	13,795
Deferred tax *(note 36)*	**(14,305)**	14,947
	19,940	61,775

11. INCOME TAX EXPENSE *(Continued)*

Hong Kong Profits Tax has been provided at the rate of 16.5% on the estimated assessable profit for 2015 (2014: 16.5%).

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

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

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

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

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

As such, included in the income tax expense for the year ended 31 December 2014 was an amount of HK$13,795,000 on the sale of Super Sino. The amount was fully settled in the year ended 31 December 2015.

11. INCOME TAX EXPENSE *(Continued)*

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

	2015	2014
	HK$'000	*HK$'000*
(Loss) profit before taxation	**(50,658)**	291,410
Tax at the domestic income tax rate of 25% (2014: 25%)	**(12,665)**	72,853
Tax effect of share of results of associates	**(1,833)**	(15)
Tax effect of expenses not deductible for tax purposes	**15,207**	17,174
Tax effect of income not taxable for tax purposes	**(4,131)**	(8,396)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**15,532**	(18,832)
Effect of tax exemption granted to PRC subsidiaries	**–**	(1,511)
Tax effect of tax losses and deductible temporary differences not recognised	**8,397**	4,567
Utilisation of tax losses previously not recognised	**–**	(1,645)
Deferred tax liabilities arising on undistributed profit of PRC subsidiaries	**1,923**	1,146
(Over) under provision in respect of prior years	**(2,490)**	1,908
Tax on disposal of Super Sino	**–**	(5,474)
	19,940	61,775

12. (LOSS) PROFIT FOR THE YEAR

(Loss) profit for the year has been arrived at after charging:

	2015	2014
	HK$'000	*HK$'000*
Staff costs excluding directors' and chief executive's emoluments		
– Salaries, wages and other benefits	**94,464**	94,985
– Retirement benefits scheme contributions	**13,628**	14,014
Total staff costs	**108,092**	108,999
Amortisation of:–		
– Prepaid lease payments	**1,443**	1,297
– Concession intangible assets (included in cost of sales)	**26,663**	32,412
– Other intangible assets	**10,498**	3,899
Concession intangible assets written off	**–**	608
Depreciation of property, plant and equipment	**14,691**	13,279
(Gain) loss on disposal of property, plant and equipment and prepaid lease payment	**(225)**	82
Auditors' remuneration – audit services	**1,450**	900
Minimum lease payments under operating leases	**6,710**	7,257
Cost of inventories sold	**115,567**	88,044

13. FIVE HIGHEST PAID INDIVIDUALS

Of the five individuals with the highest emoluments, all (2014: all) were directors and chief executive whose emoluments are set out in note 44.

14. DIVIDENDS

No dividend was paid or proposed during the year ended 31 December 2015, nor has any dividend been proposed since the end of the reporting period (2014: nil).

15. (LOSS) EARNINGS PER SHARE

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

	2015	2014
	HK$'000	*HK$'000*
(Loss) profit attributable to the owners of the Company, used in the basic (loss) earnings per share	**(97,497)**	203,622
Change in fair value of derivative component of convertible bonds	**–**	(31,482)
Imputed interest on convertible bonds, net of interest capitalised	**–**	17,737
(Loss) profit attributable to the owners of the Company, used in the diluted (loss) earnings per share	**(97,497)**	189,877

	'000	*'000*
Weighted average number of ordinary shares – basic	**1,486,921**	1,233,800
Effect of dilutive potential ordinary shares:		
– Convertible bonds	**–**	111,669
Weighted average number of ordinary shares – diluted	**1,486,921**	1,345,469
(Loss) earnings per share (HK cents):		
Basic	**(6.56)**	16.50
Diluted	**(6.56)**	14.11

For the year ended 31 December 2015, the computation of diluted loss per share does not assume the conversion of the Company's outstanding convertible bonds since their exercise would result in decrease in loss per share for the year then ended.

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Leasehold improvements	Motor vehicles	Water pipeline	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST:							
At 1 January 2014	48,603	27,736	10,657	20,578	57,819	51,195	216,588
Additions	2,420	2,549	2,705	9,659	–	62,981	80,314
Additions – interest capitalised	–	–	–	–	–	9,749	9,749
Transfer	–	–	–	–	2,426	(2,426)	–
Disposals	–	–	(55)	(1,764)	–	–	(1,819)
Acquisitions through business combinations	7,285	24,564	1,666	513	–	–	34,028
Disposal of subsidiaries	(25,754)	(2,338)	(1,564)	(1,362)	(60,245)	(65,851)	(157,114)
Exchange realignment	(196)	(77)	(31)	(158)	–	(29)	(491)
At 31 December 2014 and 1 January 2015	32,358	52,434	13,378	27,466	–	55,619	181,255
Additions	63,337	32,429	545	3,974	–	39,000	139,285
Additions – interest capitalised	–	–	–	–	–	3,209	3,209
Acquisition through business combination	–	48	–	5	–	7,005	7,058
Transfer	21,956	18,341	–	–	–	(40,297)	–
Disposals	(965)	–	(982)	(3,188)	–	–	(5,135)
Exchange realignment	(4,206)	(4,581)	(419)	(1,431)	–	(3,242)	(13,879)
At 31 December 2015	**112,480**	**98,671**	**12,522**	**26,826**	**–**	**61,294**	**311,793**
ACCUMULATED DEPRECIATION AND IMPAIRMENT:							
At 1 January 2014	6,322	3,662	2,550	6,778	35,449	394	55,155
Provided for the year	1,966	3,966	1,299	4,489	1,559	–	13,279
Eliminated on disposal	–	–	(48)	(1,089)	–	–	(1,137)
Disposal of subsidiaries	(6,274)	(672)	(643)	(225)	(37,008)	(394)	(45,216)
Exchange realignment	(36)	(29)	(17)	(54)	–	–	(136)
At 31 December 2014 and 1 January 2015	1,978	6,927	3,141	9,899	–	–	21,945
Provided for the year	1,322	7,769	1,606	3,994	–	–	14,691
Eliminated on disposal	–	–	(165)	(1,996)	–	–	(2,161)
Impairment	–	1,622	–	–	–	–	1,622
Exchange realignment	(332)	(644)	(206)	(527)	–	–	(1,709)
At 31 December 2015	**2,968**	**15,674**	**4,376**	**11,370**	**–**	**–**	**34,388**
CARRYING VALUES:							
At 31 December 2015	**109,512**	**82,997**	**8,146**	**15,456**	**–**	**61,294**	**277,405**
At 31 December 2014	30,380	45,507	10,237	17,567	–	55,619	159,310

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

As at 31 December 2015, all of the property usage permits of buildings have been granted by relevant government authorities.

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

As at 31 December 2015, none (2014: HK$746,000) of the Group's buildings was pledged to secure the bank and other borrowings granted to the Group.

In light of the continuing loss-making of certain subsidiaries situated in the PRC, an impairment assessment has been performed by the directors of the Company to determine the recoverable amount of these property, plant and equipment. The directors of the Company engaged AVISTA Valuation Advisory Limited ("AVISTA"), a professionally qualified valuer not connected with the Group to perform a valuation of these property, plant and equipment in order to provide them with the impairment assessment. Having regard to the future plan of the Group and the valuation performed by AVISTA, impairment loss of HK$1,622,000 (2014: nil) was made to the carrying amounts of the property, plant and equipment of Gaoming Huaxin for the year ended 31 December 2015.

17. PREPAID LEASE PAYMENTS

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

	2015	2014
	HK$'000	*HK$'000*
CARRYING VALUES:		
At 1 January	**26,163**	42,688
Amortisation for the year	**(1,443)**	(1,297)
Disposal of a subsidiary	**–**	(14,974)
Exchange realignment	**(1,478)**	(254)
At 31 December	**23,242**	26,163
Current assets	**1,053**	1,053
Non-current assets	**22,189**	25,110
	23,242	26,163

In light of the continuing loss-making of certain subsidiaries situated in the PRC, an impairment assessment has been performed by the directors of the Company to determine the recoverable amount of these prepaid lease payments. The directors of the Company engaged AVISTA to perform a valuation of these prepaid lease payments in order to provide them with the impairment assessment. Having regard to the future plan of the Group and the valuation performed by AVISTA, no impairment loss was made to the carrying amounts of the prepaid lease payments for the years ended 31 December 2015 and 2014.

18. CONCESSION INTANGIBLE ASSETS

	2015 HK$'000	2014 HK$'000
COST		
At 1 January	**668,005**	790,754
Additions	**59,604**	57,993
Additions – interest capitalised	**4,150**	10,171
Written off	**–**	(1,047)
Disposal of a subsidiary	**–**	(183,447)
Exchange realignment	**(37,886)**	(6,419)
At 31 December	**693,873**	668,005
ACCUMULATED AMORTISATION AND IMPAIRMENT		
At 1 January	**121,239**	168,124
Provided for the year	**26,663**	32,412
Impairment	**6,384**	–
Eliminated on written off	**–**	(439)
Disposal of a subsidiary	**–**	(77,478)
Exchange realignment	**(9,496)**	(1,380)
	144,790	121,239
CARRYING VALUES		
At 31 December	**549,083**	546,766

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

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

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

18. CONCESSION INTANGIBLE ASSETS *(Continued)*

For the year ended 31 December 2015, the Group has recognised service concession construction revenue of HK$58,690,000 (2014: HK$60,803,000) and profit of HK$3,775,000 (2014: HK$1,077,000) during the construction periods of the service concession periods.

The recoverable amounts of the CGUs under water supply and sewage treatment which contain concession intangible assets is determined by using value-in-use calculation with reference to the valuation performed by AVISTA. The calculation uses cash flow projections based on financial budgets approved by management covering a five-year period, and pre-tax discount rate of 13.7% – 15.0%. Cash flows beyond the five-year period have been extrapolated using a steady 2% – 4% growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the long-term average growth rate for the relevant industry.

The review led to the carrying amount of service concession arrangements in the CGUs of Gaoming Haoxin and Jining Haiyuan have been reduced to their recoverable amount of HK$42,777,000 (RMB35,836,000) and HK$55,498,000 (RMB46,492,000), respectively, through recognition of impairment losses of HK$3,311,000 (2014: nil) and HK$3,073,000 (2014: nil), respectively, mainly due to the operating losses of these subsidiaries in 2015.

19. OTHER NON-CURRENT ASSETS/INVESTMENT PROPERTY

INVESTMENT PROPERTY	**2015** ***HK$'000***	2014 *HK$'000*
AT FAIR VALUE:		
At 1 January	**21,457**	21,037
Fair value gain recognised for the year	**410**	605
Reclassified as other non-current assets	**(21,563)**	–
Exchange realignment	**(304)**	(185)
At 31 December	**–**	21,457

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

During 2015, Yingtan Water Supply entered into agreements with a local government office to transfer all units of the investment property (the "Resumption Properties") to the local government for the development of a composite project (the "New Premises"), which Yingtan Water Supply will receive compensation including transfer of certain construction floor areas of the New Premises.

The fair value of the New Premises, estimated at HK$21,563,000, was recognized as deemed consideration.

The fair value of the New Premises at the date of transfer has been arrived at on the basis of a valuation carried out as at that date by AVISTA, by adopting the income method by taking into account the net rental income of the property achievable in the existing market with due allowance for the reversionary income potential of the leases. Rental income achievable are analysed in order to arrive at fair capital values.

The carrying amount of the New Premises, classified as other non-current assets, at 31 December 2015 was HK$20,711,000.

As at 31 December 2015, the New Premises are still under construction.

19. OTHER NON-CURRENT ASSETS/INVESTMENT PROPERTY *(Continued)*

Fair value measurement of properties

(i) Fair value hierarchy

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

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

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

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

	Fair value at 31 December		Fair value measurements 31 December categorised into	
		Level 1	Level 2	Level 3
2014	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Recurring fair value measurement				
Investment properties:				
– Commercial – PRC	21,457	–	–	21,457

During the year ended 31 December 2015, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

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

19. OTHER NON-CURRENT ASSETS/INVESTMENT PROPERTY *(Continued)*

Fair value measurement of properties *(Continued)*

(ii) Information about Level 3 fair value measurements

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

The fair value of investment properties located in the PRC as at 31 December 2014 is determined by using income approach (term and reversionary method) which largely used observable inputs (e.g. market rent, yield, etc) and taking into account on term yield to account for the risk upon reversionary and the estimation in vacancy rate after expiry of current lease. The higher the vacancy rate and term and reversionary yield, the lower the fair value.

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

	2015	2014
	HK$'000	*HK$'000*
Investment properties – Commercial – PRC		
At 1 January	**21,457**	21,037
Net gain from a fair value adjustment recognised in change in fair value of investment property in profit or loss	**410**	605
Transfer upon resumption of properties	**(21,563)**	–
Exchange realignment	**(304)**	(185)
At 31 December	**–**	21,457

Exchange adjustment of investment property are recognised in other comprehensive income and accumulated separately in equity in the translation reserve.

All the gains recognised in profit or loss for the year ended 31 December 2014 arose from properties held at the end of the reporting period.

20. OTHER INTANGIBLE ASSETS

	Goodwill *HK$'000*	Exclusive rights of collection and utilization of landfill gas *HK$'000*	Total *HK$'000*
COST:			
At 1 January 2014	270,868	41,411	312,279
Acquisition of exclusive rights *(note 22)*	–	29,010	29,010
Acquisition of subsidiaries *(note 37)*	13,733	83,957	97,690
Disposal of subsidiaries	(11,284)	–	(11,284)
Exchange realignment	77	433	510
At 31 December 2014 and 1 January 2015	**273,394**	**154,811**	**428,205**
Acquisition of exclusive rights	**–**	**19,794**	**19,794**
Acquisition of a subsidiary *(note 37)*	**–**	**1,768**	**1,768**
Exchange realignment	**(14,181)**	**(9,092)**	**(23,273)**
At 31 December 2015	**259,213**	**167,281**	**426,494**
ACCUMULATED AMORTISATION AND IMPAIRMENT:			
At 1 January 2014	251,933	583	252,516
Amortisation	–	3,899	3,899
Impairment	6,964	–	6,964
Disposal of subsidiaries	(11,284)	–	(11,284)
Exchange realignment	–	(1)	(1)
At 31 December 2014 and 1 January 2015	**247,613**	**4,481**	**252,094**
Amortisation	**–**	**10,498**	**10,498**
Impairment	**4,066**	**874**	**4,940**
Exchange realignment	**(13,486)**	**(645)**	**(14,131)**
At 31 December 2015	**238,193**	**15,208**	**253,401**
CARRYING VALUES:			
At 31 December 2015	**21,020**	**152,073**	**173,093**
At 31 December 2014	25,781	150,330	176,111

20. OTHER INTANGIBLE ASSETS *(Continued)*

During 2015, the Group incurred expenditures totalled HK$19,794,000 to secure a contract to collect landfill gas at the Shenzhen Xiaping landfill site for a period of three years from November 2015 to November 2018 (note 7).

The exclusive rights acquired upon acquisition of subsidiaries were initially recognised at fair value at the acquisition date. The exclusive rights acquired separately were initially recognised at cost. Amortisation expense for the year ended 31 December, 2015 was HK$10,498,000 (2014: HK$3,899,000), of which HK$9,551,000 (2014: HK$3,500,000) and HK$947,000 (2014: HK$399,000) were recorded into cost of sales and administrative expenses, respectively.

Impairment test on goodwill

For the purposes of impairment testing, goodwill have been allocated to seven (2014: seven) individual cash generating unit ("CGUs"). The carrying amounts of goodwill (net of accumulated impairment losses) as at 31 December 2015 and 2014 allocated to these units are as follows:

	2015 ***HK$'000***	2014 *HK$'000*
Water supply and sewage treatment		
Blue Mountain Hong Kong Group Limited ("Blue Mountain")	**–**	–
Onfar International Limited ("Onfar")	**–**	–
Jining City Haiyuan Water Treatment Company Limited ("Jining Haiyuan")	**–**	–
Foshan City Gaoming Huaxin Sewage Treatment Company Limited ("Gaoming Huaxin")	**–**	3,328
Collection and utilization of landfill gas		
Shenzhen City Li Sai Industrial Development Limited	**12,377**	13,043
Nanjing Feng Shang New Technology Limited Liability Company ("Nanjing Feng Shang")	**8,643**	8,673
Hunan Huiming Environmental Technology Limited ("Huiming Technology")	**–**	737
	21,020	25,781

The Group tests goodwill annually for impairment, or more frequently when there is indication that the unit may be impaired. In assessing the need for impairment of goodwill, the Group estimates the recoverable amount of individual CGU to which goodwill has been allocated by reference to, amongst other things, the existing operations, and future prospects of the CGUs. Accordingly, the Group recognised impairment losses with an aggregate amount of HK$238,193,000 as at 31 December 2015 in relation to goodwill arising on acquisition of Huiming Technology, Gaoming Huaxin, Blue Mountain, Onfar and Jining Haiyuan (2014: impairment losses with an aggregate amount of HK$247,613,000 in relation to goodwill arising on acquisition of Gaoming Huaxin, Blue Mountain, Onfar and Jining Haiyuan).

20. OTHER INTANGIBLE ASSETS *(Continued)*

Impairment test on goodwill *(Continued)*

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

Water supply and sewage treatment

The recoverable amount of the CGUs under the water supply and sewage treatment operation is determined based on value-in-use calculations with reference to a valuation performed by AVISTA. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 2% – 4% (2014: 2%) which is consistent with the forecasts included in industry reports. The growth rates used do not exceed the long-term average growth rates for the business in which the CGU operates. The cash flows are discounted using a discount rate of 13.7% (2014: 13.7% – 15.4%). The discount rates used are pre-tax and reflect specific risks relating to the relevant industry.

In light of the operating loss of Gaoming Huaxin incurred in 2015, an impairment loss of HK$3,329,000 (2014: HK$6,964,000) was made on goodwill during the year ended 31 December 2015. The recoverable amount of this CGU at 31 December 2015 was HK$42,777,000 (RMB35,836,000) (2014: HK$53,831,000 (RMB42,699,000)).

Collection and utilization of landfill gas

The recoverable amount of the CGUs under the collection and utilization of landfill gas is determined based on value-in-use calculations with reference to a valuation performed by AVISTA. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 0% – 2% (2014: 2% – 3%) which is consistent with the forecasts included in industry reports. The growth rates used do not exceed the long-term average growth rates for the business in which the CGU operates. The cash flows are discounted using a discount rate of 16.2% – 19.8% (2014: 15.9% – 19.4%). The discount rates used are pre-tax and reflect specific risks relating to the relevant industry.

In light of the operating loss of Huiming Technology incurred in 2015, an impairment loss was made on goodwill and exclusive rights of HK$737,000 (2014: nil) and HK$874,000 (2014: nil), respectively, during the year ended 31 December 2015. The recoverable amount of this CGU at 31 December 2015 was HK$33,541,000 (RMB28,098,000).

21. INVESTMENTS

	Available-for-sale investments		Financial assets at fair value through profit or loss – held for trading	
	2015	2014	**2015**	2014
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
– Equity securities listed in Hong Kong	**146,409**	26,016	**105,133**	59,260
– Unlisted US dollar based investment funds (the "Funds")	**35,015**	–	**114,928**	179,267
	181,424	26,016	**220,061**	238,527

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

As at 31 December 2015, the Group's available-for-sale investments were individually determined to be impaired on the basis of a material decline in their fair value below cost and adverse changes in the market in which these investees operated which indicated that the cost of the Group's investment in them may not be recovered. Impairment losses on these investments of HK$58,537,000 (2014: HK$16,353,000) were recognised in profit or loss in accordance with the policy set out in note 3(p)(i).

The unlisted US dollar based investment funds (the "Funds") primarily invest in listed securities in Asian market, and are stated with reference to the net asset values provided by the fund managers on the last day of each calendar month.

21. INVESTMENTS *(Continued)*

The movement of the unlisted US dollar based investment funds, classified as available-for-sale investments, is set out below:

	2015 HK$'000	2014 HK$'000
Subscription of funds	**80,000**	–
Fund dividend received in the from of additional shares in the funds	**8,766**	–
Fair value change (included in other comprehensive income)	**(53,751)**	–
	35,015	–

The net unrealised gains arising from remeasurement of the available-for-sale investments are recognised in investment revaluation reserve in other comprehensive income.

The movement of the unlisted US dollar based investment funds, classified as financial assets at fair value through profit or loss, is set out below:

	2015 HK$'000	2014 HK$'000
Beginning of the year	**179,267**	–
Subscription of funds	**–**	105,000
Disposals	**(42,361)**	–
Fund dividend received in the form of additional shares in the funds	**1,669**	–
Fair value (loss) gain (included in net (loss) gain on financial assets at fair value through profit or loss)	**(23,647)**	74,267
End of the year	**114,928**	179,267
Total (loss) gains for the year included in profit or loss for assets held at the end of the reporting period (included in net (loss) gain on financial assets at fair value through profit or loss) *(note)*	**(30,008)**	74,267

Note: Loss for 2015 included an impairment of HK$6,361,000 on the receivable from disposal of unlisted US dollar based investment funds in the year (note 25).

22. INVESTMENTS IN SUBSIDIARIES

The following list contains the particulars of the principal subsidiaries of the Group as at 31 December 2015. The class of shares held is ordinary, unless otherwise stated.

Name of company	Place of establishment/ incorporation and business	Particulars of issued and paid up share capital/ registered capital	Attributable equity interest held by the Company		Principal activities	Legal form
			Directly	Indirectly		
Billion City Investments Limited	British Virgin Islands ("BVI")/Hong Kong	US$1	100%	–	Investment holding	Private limited liability company
Onfar International Limited ("Onfar")	BVI/Hong Kong	US$100	–	100%	Investment holding	Private limited liability company
Yichun Water Industry Co., Limited* ("Yichun Water")	PRC	RMB45,500,000	–	51%	Provision of water supply and installation of water supply facilities	Chinese foreign equity joint venture
Yichun Fangke Sewage Treatment Company Limited* ("Yichun Fangke")	PRC	RMB95,000,000	–	54.33%	Sewage treatment	Domestic enterprise
Yichun City Water Supply Engineering Limited*	PRC	RMB5,000,000	–	100%	Installation of water supply facilities	Domestic enterprise
Yichun Kun Lun Information Technology Company Limited* ("Yichun Kun Lun")	PRC	RMB2,000,000	–	100%	Information services	Domestic enterprise
Nourish Gain Investments Limited	BVI/Hong Kong	US$1	100%	–	Investment holding	Private limited liability company
China Ace Investment Limited	Hong Kong	HK$1	–	100%	Investment holding	Private limited liability company
Jining City Haiyuan Water Treatment Company Limited* ("Jining Haiyuan")	PRC	RMB40,000,000	–	70%	Sewage treatment	Chinese foreign equity joint venture
Swan (Huizhou) Investment Company Limited	PRC	US$12,572,000	–	100%	Investment holding	Wholly-owned foreign enterprise
Swan (Huizhou) Creative Technology Company Limited*	PRC	RMB175,000,000	–	100%	Renewable energy technology development	Domestic enterprise
Huizhou Swan Heng Chang Property Development Company Limited*	PRC	RMB50,000,000	–	100%	Property development	Domestic enterprise
China Water Industry (HK) Ltd	Hong Kong	HK$1	–	100%	Investment holding	Private limited liability company

22. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place of establishment/ incorporation and business	Particulars of issued and paid up share capital/ registered capital	Attributable equity interest held by the Company Directly	Indirectly	Principal activities	Legal form
Linyi Fenghuang Water Industry Co., Ltd* ("Linyi Fenghuang")	PRC	RMB30,000,000	–	60%	Provision of water supply	Chinese foreign equity joint venture
Shenzhen Haisheng Environmental Sci-Tech Company Limited*	PRC	HK$20,000,000	–	100%	Installation of water suppliers facilities	Wholly-owned foreign enterprise
Shenzhen Shi Guang Company Limited* ("Shenzhen Shi Guang")	PRC	RMB1,000,000	–	100%	Trading company	Domestic enterprise
Shi Guang Limited	Hong Kong	HK$10,000	–	100%	Trading company	Private limited liability company
Yingtan Water Supply Co., Ltd* ("Yingtan Water Supply")	PRC	RMB66,008,000	–	51%	Provision of water supply	Chinese foreign equity joint venture
Jiangxi Shunda Construction Engineering Limited*	PRC	RMB20,500,000	–	100%	Installation of water supply facilities	Domestic enterprise
Yingtan Xinjiang Water Treatment Engineering Limited*	PRC	RMB500,000	–	100%	Installation of water supply facilities	Domestic enterprise
Jiangxi Hualei Construction Co., Limited* ("Hualei") *(note i)*	PRC	RMB20,000,000	–	100%	Installation of water supply facilities	Domestic enterprise
Yingtan Xiang Rui Property Limited*("Yingtan Xiang Rui")	PRC	RMB20,000,000	–	51%	Property development	Domestic enterprise
Yingtan City Plumbing and Drainage Investigation and Design Company Limited*	PRC	RMB500,000	–	100%	Design of water pipeline network	Domestic enterprise
Nanjing Feng Shang New Technology Limited Liability Company* ("Nanjing Feng Shang") *(note vi)*	PRC	RMB10,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
New China Water (Nanjing) Renewable Resources Investment Company Limited* (Formerly known as Greenspring (Nanjing) Recycling Resources Investment Co., Ltd.*) ("New China Water (Nanjing)")	PRC	US$49,812,100	–	100%	Exploitation, generation and sale of renewable energy	Wholly-owned foreign enterprise

22. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place of establishment/ incorporation and business	Particulars of issued and paid up share capital/ registered capital	Attributable equity interest held by the Company		Principal activities	Legal form
			Directly	Indirectly		
Changsha Huiming Recycling Resources Technology Limited* ("Changsha Huiming") *(note ii)*	PRC	RMB50,000,000	–	91%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Shenzhen City Li Sai Industrial Development Limited* ("Shenzhen Li Sai") *(note 37(a))*	PRC	RMB50,000,000	–	88%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Shenzhen City Greenspring Recycling Resources Technology Limited* ("Shenzhen City Greenspring") *(note iii)*	PRC	RMB20,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Qingyuan City Greenspring Environmental Technology Limited* ("Qingyuan City Greenspring") *(note iv)*	PRC	RMB30,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Hunan Huiming Environmental Technology Limited* ("Huiming Technology") *(note 37(b))*	PRC	RMB18,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Hunan Feng Ming Energy Technology Limited* ("Hunan Feng Ming") *(note 37(c))*	PRC	RMB5,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Wuzhou City China Water New Renewable Resources Company Limited ("Wuzhou New China Water") *(note v)*	PRC	RMB15,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Happy Hour Limited	BVI/Hong Kong	US$1	100%	–	Investment holding	Private limited liability company
Mascot Industries Limited	Hong Kong	HK$2	–	100%	Investment holding	Private limited liability company

22. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place of establishment/ incorporation and business	Particulars of issued and paid up share capital/ registered capital	Attributable equity interest held by the Company Directly	Indirectly	Principal activities	Legal form
Smart Giant Group Limited	BVI/Hong Kong	US$1	100%	–	Investment holding	Private limited liability company
Blue Mountain Hong Kong Group Limited ("Blue Mountain")	Hong Kong	HK$1	–	100%	Investment holding	Private limited liability company
Swift Surplus Holdings Limited	BVI/Hong Kong	US$100	100%	–	Investment holding	Private limited liability company
Mark Profit Group Holdings Limited	Hong Kong	HK$1	–	100%	Investment holding	Private limited liability company
Guangzhou Hyde Environmental Protection Technology Co., Ltd*	PRC	HK$12,000,000	–	100%	Investment holding	Wholly-owned foreign enterprise
Foshan City Gaoming Huaxin Sewage Treatment Company Limited* ("Gaoming Huaxin")	PRC	RMB10,000,000	–	70%	Sewage treatment	Domestic enterprise
Bonus Raider Investments Limited	BVI/Hong Kong	US$1	100%	–	Investment holding	Private limited liability company
Bloom Profit Investment Limited	Hong Kong	HK$100	–	100%	Investment holding	Private limited liability company
South Top Investment Ltd.	Hong Kong	HK$1	100%	–	Provision of administrative services	Private limited liability company
Neutral Crown Holdings Limited	BVI	US$100	100%	–	Investment holding	Private limited liability company
Victory Strategy Investment Limited	Hong Kong	HK$100	–	100%	Investment holding	Private limited liability company

* The English names are for identification purpose only.

22. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Notes:

(i) Hualei was acquired on 21 April 2014.

(ii) Changsha Huiming was incorporated in the PRC on 15 April 2014. Changsha Huiming obtained from a non-controlling shareholder of a subsidiary the exclusive rights relating to the operation and utilization of Changsha Heimifeng Landfill Site* for a period of 35 years until 10 October 2039 at a cash consideration of RMB23,000,000 (HK$29,010,000) (note 20).

(iii) Shenzhen City Greenspring was incorporated in the PRC on 17 September 2014. New China Water (Nanjing) was granted by a government authority, Pingshan New District City Administration Bureau* 深圳市坪山新區管理局 relating to the operation and utilization of Yahu Household Garbage Landfill Site in Pingshan New District* 坪山新區鴨湖生活垃圾衛生填埋場 for a period of 10 years until 15 September 2024, and Shenzhen City Greenspring was set up to carry out construction and production in this site.

(iv) Qingyuan City Greenspring was incorporated in the PRC on 24 September 2014. New China Water (Nanjing) was granted by a government authority, Solid Waste Management Centre of Qingyuan City* 清遠市固體廢棄物管理中心, relating to the operation rights of Qingshan Municipal Solid Waste Landfill Site* 清遠市青山城市生活垃圾衛生填埋場 for a term of 10 years until 25 July 2024, and Qingyuan City Greenspring was set up to carry out construction and production in this site.

(v) Wuzhou City China Water New Renewable Resources Company Limited ("Wuzhou New China Water") was incorporated in the PRC on 25 September 2015. Wuzhou New China Water, Wuzhou City Municipal and Landscape Garden Administration Bureau* 梧州市市政和園林管理局 ("Wuzhou City Municipal") and Wuzhou City Urban Waste Disposal Co., Ltd* 梧州市城市廢棄物處理有限責任公司 ("Wuzhou City Company") entered into the development and operation agreement in relation to the comprehensive utilisation project of the landfill gas resources in respect of the household garbage landfill site in Wuzhou City. The term of the project development and operation is six years, commencing from the date of commercial operation of such project. Upon the expiry of the term of development and operation, it can be renewed for a term not exceeding three years, and Wuzhou New China Water was set up to develop and operate this project.

(vi) Nanjing Feng Shang was a foreign enterprise wholly-owned by China Water Industry (HK) Ltd. In September 2015, it became a wholly-owned subsidiary of New China Water (Nanjing).

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

22. INVESTMENTS IN SUBSIDIARIES *(Continued)*

None of the subsidiaries has issued any debt securities subsisting at the end of 2015 and 2014 or at any time during the years ended 31 December 2015 and 2014.

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

	Yingtan Water Supply		Yichun City Water Supply Engineering Limited	
	2015	2014	**2015**	2014
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
NCI percentage	**49%**	49%	**49%**	49%
Current assets	**96,819**	80,557	**126,683**	72,969
Non-current assets	**342,517**	288,668	**129**	–
Current liabilities	**(75,168)**	(115,955)	**(72,788)**	(32,182)
Non-current liabilities	**(142,565)**	(52,039)	**–**	–
Net assets	**221,603**	201,231	**54,024**	40,787
Carrying amount of NCI	**107,956**	98,603	**26,472**	19,986
Revenue	**115,666**	131,814	**110,369**	70,951
Profit for the year	**31,408**	31,351	**16,038**	21,550
Total comprehensive income	**20,372**	28,764	**13,237**	21,369
Profit allocated to NCI	**15,390**	15,362	**7,859**	10,560
Dividend paid by the subsidiaries	**–**	(15,014)	**–**	–
Dividend paid to NCI	**–**	(7,357)	**–**	–
Cash flows (used in) from operating activities	**(24,009)**	11,035	**(46,943)**	2,740
Cash flows used in investing activities	**(42,874)**	(37,679)	**(297)**	–
Cash flows from (used in) financing activities	**64,295**	(15,308)	**(6,891)**	(238)

23. INTERESTS IN ASSOCIATES

	2015 **HK$'000**	2014 HK$'000
Share of net assets	**74,660**	73,103
Impairment	**–**	(33,540)
	74,660	39,563

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

The reversal of impairment loss of HK$33,540,000 in 2015 (2014: nil) was related to Jinan Hongquan Water Production Co. Ltd* ("Jinan Hongquan") whose business activity is the provision of water supply service. The reversal was due to the recovery of Jinan Hongquan's recoverable amount, resulting from the increase in water tariff in Jinan Hongquan effective in May 2015.

The recoverable amount of Jinan Hongquan has been determined by using value-in-use calculation with reference to the valuation performed by AVISTA. The calculation uses cash flow projections based on financial budgets approved by management covering a four-year period, and pre-tax discount rate of 14.5%. Cash flows beyond the four-year period have been extrapolated using a steady 2% growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the long-term average growth rate for the relevant industry. The recoverable amount of this CGU at 31 December 2015 was HK$151,843,000 (RMB127,204,000).

Name of company	Place of establishment/ incorporation and business	Class of shares held	Attributable equity interest held by the Company		Principal activities	Legal form
			Directly	Indirectly		
Yu Jiang Hui Min Small-Sum Loan Company Limited* ("Yu Jiang Hui Min") 余江惠民小額貸款股份有限公司	PRC	Contributed capital	–	10%	Money lending business *(note i)*	Domestic enterprise
Jinan Hongquan Water Production Co., Limited*("Jinan Hongquan") 濟南泓泉制水有限公司	PRC	Contributed capital	–	35%	Provision of water supply *(note ii)*	Domestic enterprise
Super Sino Investment Limited ("Super Sino")	Hong Kong	Paid-up capital	–	30%	Investment holding in companies engaged in provision for water supply, installation of water supply facilities and water testing *(note iii)*	Private limited liability company

* The English names are for identification purpose only.

23. INTERESTS IN ASSOCIATES *(Continued)*

Notes:–

(i) On 21 December 2011, the Group acquired 10% equity interest in Yu Jiang Hui Min at a consideration of approximately HK$12,206,000. During the years ended 31 December 2015 and 2014, the Group has the right to nominate two out of five of the directors of Yu Jiang Hui Min. The directors of the Company consider that the Group does exercise significant influence over Yu Jiang Hui Min and it is therefore classified as an associate of the Group. Yu Jiang Hui Man enables the Group to have exposure in the money lending business through local expertise.

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

(iii) On 15 September 2014, a sale and purchase agreement was entered into between the Company, Billion City Investments Limited, a subsidiary of the Company and Guangdong Water Group (H.K.) Limited (the "Purchaser"), pursuant to which the Company agreed to sell and the Purchaser agreed to purchase 70% of the entire issued share capital of Super Sino at an aggregate initial consideration of RMB175 million. The equity interest in Super Sino owned by the Group has reduced from 100% to 30%.

As of 31 December 2015 and 2014, the Group has pledged 3 ordinary shares (or 30%) in the issued share capital of Super Sino in favour of the Purchaser (the "Share Pledge") (note 38).

Aggregate information of associates that are not individually material:

	2015	2014
	HK$'000	*HK$'000*
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	**74,660**	39,563
Aggregate amounts of the Group's share of those associates'		
Profit for the year	**7,332**	61
Other comprehensive income	**(5,775)**	(558)
Total comprehensive income	**1,557**	(497)

24. INVENTORIES

	2015	2014
	HK$'000	*HK$'000*
Properties under development for sale	**173,637**	146,068
Raw materials	**30,047**	37,564
Finished goods	**699**	404
	204,383	184,036

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

	2015	2014
	HK$'000	*HK$'000*
Carrying amount of inventories sold	**135,173**	88,044

The analysis of carrying value of inventories for properties under development is as follows:

	2015	2014
	HK$'000	*HK$'000*
In mainland China		
– Land use rights	**87,737**	92,945
– Other development costs	**67,207**	40,853
– Interest capitalised	**18,693**	12,270
	173,637	146,068
Including:		
Properties expected to be completed within one year	**173,637**	146,068

Properties under development represented the construction of new commercial buildings for sale by Yingtan Xiang Rui Property Limited* (鷹潭祥瑞置業有限公司) at Yingtan, Jiangxi Province, the PRC. The construction has commenced in February 2014 and is expected to complete in 2016.

As at 31 December 2015, none of the properties under development (2014: carrying amount of approximately HK$146.07 million) have been pledged to secure a personal bank loan granted to Mr. Zhou Ping Hua (2014: HK$37.8 million (RMB30 million)), the 49% non-controlling shareholder of Yingtan Xiang Rui Property Limited.

* The English names are for identification purpose only.

25. TRADE AND OTHER RECEIVABLES

	2015 HK$'000	2014 HK$'000
Trade receivables	**38,010**	35,912
Less: Allowance for doubtful debts	**(2,331)**	(5,659)
	35,679	30,253
Consideration receivable *(note 38)*	–	88,304
Other receivables *(note a)*	**83,197**	15,700
Less: Allowance for doubtful debts	**(10,466)**	(4,265)
	72,731	11,435
Loans receivables *(note b)*	**112,142**	69,847
Less: Allowance for doubtful debts	**(54,844)**	(54,844)
	57,298	15,003
Deposits and prepayments *(note c)*	**139,898**	26,687
	305,606	171,682

(a) Other receivables represented advances to staff and unrelated parties, which were unsecured, interest-free and repayable on demand. Amount at 31 December 2015 mainly included (i) a receivable of HK$42.4 million (2014: nil) from the disposal of investments in unlisted US dollar based investment funds (classified as financial assets at fair value through profit or loss) (ii) a receivable of HK$14.0 million (2014: nil) from the disposal of investments in a property development company in China (classified as available-for-sale investments).

(b) Loans receivable

Apart from the loans to Top Vision of (HK$43.6 million) and other borrowers of (HK$11.2 million) as explained below, also included in loans receivables as at 31 December 2015 were loans to two (2014: one) unrelated parties of HK$57,298,000 (2014: HK$15,003,000), which bear fixed interest rate at approximately 36% per annum (note 9(a)). Loan of HK$9,550,000 was unsecured and the remaining balance was secured by the equity interest in the borrower (a company incorporated in China). These parties have no recent history of default.

(c) Deposits and prepayments were mainly prepayments and tender deposits paid to independent third parties for construction projects. Amount at 31 December 2015 included a deposit of HK$47.75 million (2014: nil) for purchase of materials for trading purposes. Subsequent to 31 December 2015, the purchase was cancelled and the deposit was fully refunded.

25. TRADE AND OTHER RECEIVABLES *(Continued)*

Trade receivables

The Group allows an average credit period of 5 days to 180 days to its customers. Further details on the Group's credit policy are set out in note 6.

The ageing analysis of the trade receivables, net, as at the end of the reporting period, based on invoice date which approximates the respective revenue recognition date, is as follows:

	2015	2014
	HK$'000	*HK$'000*
Within 90 days	**33,164**	20,985
91 to 180 days	**401**	2,262
181 to 365 days	**–**	5,671
Over 1 year	**2,114**	1,335
	35,679	30,253

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

	2015	2014
	HK$'000	*HK$'000*
Neither past due nor impaired	**33,565**	23,247
Past due but not impaired		
Within 90 days	**–**	4,450
91 to 180 days	**–**	1,221
181 to 365 days	**1,508**	745
Over 1 year	**606**	590
	35,679	30,253

Trade receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default. The Group does not hold any collateral over these balances.

Trade receivables that were past due but not impaired related to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balance are still considered fully recoverable. The Group does not hold any collateral over these balances.

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly (note 3(p)).

25. TRADE AND OTHER RECEIVABLES *(Continued)*

Trade receivables *(Continued)*

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

	2015 HK$'000	2014 HK$'000
At 1 January	**5,659**	7,604
Impairment loss recognised	**155**	3,059
Reversal of impairment loss	**(359)**	(337)
Uncollectible amounts written off	**(2,949)**	(2,074)
Disposal of subsidiaries	**–**	(2,527)
Exchange realignment	**(175)**	(66)
At 31 December	**2,331**	5,659

Included in the impairment loss are individually impaired trade receivables with an aggregate balance of HK$2,331,000 (2014: HK$5,659,000) which are long outstanding.

Other receivables

Impairment losses in respect of other receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against other receivables directly (note 3(p)). The movements in the allowance of doubtful debts on other receivables are as follows:

	2015 HK$'000	2014 HK$'000
At 1 January	**4,265**	9,090
Impairment loss recognised *(note 21)*	**6,367**	–
Uncollectible amounts written off	**(93)**	(2,308)
Disposal of subsidiaries	**–**	(2,508)
Exchange realignment	**(73)**	(9)
At 31 December	**10,466**	4,265

Impairment loss recognised included an impairment of HK$6,361,000 on the receivable from disposal of an unlisted US dollar based investment fund in the year, included as "Net (loss) gain on financial assets at fair value through profit or loss" on the consolidated statement of profit or loss for 2015. Included in the impairment loss are individually impaired other receivables with an aggregate balance of HK$10,466,000 (2014: HK$4,265,000) which are long outstanding. Other receivables of HK$72,731,000 (2014: HK$11,435,000) that were neither past due nor impaired relate to various debtors for whom there was no recent history of default. The Group does not hold any collateral over these balances.

25. TRADE AND OTHER RECEIVABLES *(Continued)*

Loans receivables

Impairment losses in respect of loans 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 loans receivables directly (note 3(p)).

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

	2015 HK$'000	2014 HK$'000
At 31 December	**54,844**	54,844

Included in the impairment loss are individually impaired loans receivables with an aggregate balance of HK$54,844,000 (2014: HK$54,844,000) which are long outstanding. The Group does not hold any collateral over these balances.

Loans to Top Vision

As at 31 December 2010, loans receivables included HK$68,206,000 due from Top Vision Management Ltd ("Top Vision"). Prior to 1 January 2012, part of the aforesaid loan balance of HK$15,500,000 was used to set off the consideration paid to Top Vision for the acquisition of 70% equity interest in Gaoming Huaxin. In addition, another part of the loan balance of approximately HK$9,108,000 was assigned from Top Vision to Gaoming Huaxin upon the Group's acquisition of Gaoming Huaxin. On 21 August 2012, the Company and its subsidiary of Swift Surplus Holdings Limited ("Swift Surplus") (collectively the "Lenders") entered into another supplementary agreement with Top Vision, pursuant to which the outstanding balance carried interest rate of 4% per annum plus Hong Kong Interbank Offered Rate ("HIBOR"), repayable on or before 31 December 2012 and the settlement was guaranteed by 5 independent third parties. As at 31 December 2014 and 2015, the remaining balance of HK$43,598,000 has not yet been settled.

On 22 March 2013, the Lenders have entered into supplemental deeds with Top Vision together with its respective guarantors, pursuant to which, approximately HK$18.03 million of the remaining loan receivables and underlying interests shall be repaid to the Lenders on or before 21 March 2014. Nevertheless, Swift Surplus and Top Vision and its guarantors could not reach an agreement in respect of the terms and date of the repayment of the outstanding balance of the remaining loan receivables and underlying interests.

25. TRADE AND OTHER RECEIVABLES *(Continued)*

Loans to Top Vision *(Continued)*

On 14 May 2013, the Company instructed its legal counsel to file the writ of summons to the High Court of Hong Kong Special Administrative Region (the "High Court") to recover the outstanding loan balance from Top Vision. On 25 June 2013, the High Court adjudged a final judgment that Top Vision shall pay the outstanding balance to Swift Surplus (the "Final Judgment"). Up to the date of approval these financial statements, Top Vision has not performed the repayment obligation under the judgment issued by the High Court. The Company cannot locate any asset of Top Vision in Hong Kong. Without information on the assets of Top Vision in Hong Kong, the Company cannot enforce the Final Judgment against Top Vision.

As the major assets owned by the subsidiaries of Top Vision are located in Guangdong Province, the PRC, the Company will undertake recovery actions including but not limited to legal actions taken in PRC to collect the outstanding loan balance.

On 20 August 2014, a petition to wind up Top Vision was filed by one of its creditors. Top Vision has now been wound up by the High Court and the first meeting of creditors of Top Vision was held on 30 October 2014 for the appointment of provisional of liquidator. On 14 January 2015, the solicitors act for the creditors requested the High Court to have the hearing adjourned for the appointment of liquidators (the "Appointment") pending the alleged negotiation settlement between the Top Vision and all creditors including the Company and its subsidiary. On 4 May 2015, the liquidators were appointed. Although Top Vision was in liquidation, during the year, the Company has instructed its legal counsel to issue demand letters to respective guarantors, if guarantors fail to settle the remaining loan receivables and the underlying interests within stipulated time, the Company will undertake the arbitration and civil action in Hong Kong against the respective guarantors. Refer to note 45 for further details.

At 31 December 2015 and 2014, the loan receivables from Top Vision of HK$43,598,000 were fully impaired.

At 31 December 2015 and 2014, the long outstanding loans receivables from three other borrowers totalled HK$11,246,000, were fully impaired.

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

Cash held by financial institutions by the Group represents amounts deposited in financial institutions in Hong Kong carry interest rate ranging from 0% to 0.001% (2014: 0% to 0.001%) per annum.

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

27. TRADE AND OTHER PAYABLES

	2015	2014
	HK$'000	*HK$'000*
Trade payables	**25,299**	17,540
Receipt in advance *(note 28)*	**96,355**	50,833
Construction payables	**65,002**	7,502
Interest payables *(note 30)*	**11,943**	10,549
Consideration payable *(note 37)*	**3,033**	13,237
Forward sales deposits received	**22,505**	2,379
Other tax payables	**6,853**	4,313
Accrued expenses	**19,771**	17,578
Guarantee deposits from a subcontractor	**11,937**	–
Sewage treatment fees received on behalf of certain government authorities	**22,264**	21,592
Other payables	**21,080**	12,424
	306,042	157,947

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

	2015	2014
	HK$'000	*HK$'000*
Within 30 days	**10,226**	10,397
31 to 90 days	**4,654**	574
91 to 180 days	**1,198**	1,001
181 to 365 days	**2,065**	2,198
Over 1 year	**7,156**	3,370
	25,299	17,540

The credit terms of trade payables vary according to the terms agreed with different suppliers. The Group has financial risk management policies in place to ensure that all payables are settled within the time frame agreed with the respective suppliers.

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

	2015 HK$'000	2014 HK$'000
Contracts in progress at the end of reporting period:		
Contract costs incurred plus recognised profits	**83,704**	75,354
Less: progress billings	**(182,421)**	(120,877)
	(98,717)	(45,523)
Analysed for reporting purposes		
Amounts due from contract customers	**13,463**	12,898
Amounts due to contract customers	**(112,180)**	(58,421)
	(98,717)	(45,523)

As at 31 December 2015 and 2014, there were no retentions held by customers for contract work. Advance received from customers for contract work amounted to HK$83,398,000 (2014: HK$38,731,000) was included in trade and other payables (note 27).

29. BANK BORROWINGS

At 31 December 2015, the bank borrowings were repayable as follows:

	2015 HK$'000	2014 HK$'000
Within one year or on demand	**29,007**	49,258
More than one year but within two years	**21,487**	19,163
More than two years but within five years	**70,428**	14,435
More than five years	**11,937**	–
	132,859	82,856
Less: Amount due within one year shown under current liabilities	**(29,007)**	(49,258)
Amount due from one year shown under non-current liabilities	**103,852**	33,598

29. BANK BORROWINGS *(Continued)*

	2015	2014
	HK$'000	*HK$'000*
Secured	**123,309**	50,518
Unsecured	**9,550**	32,338
	132,859	82,856

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

	2015	2014
	HK$'000	*HK$'000*
Fixed-rate loans	**56,462**	33,094
Variable-rate loans	**76,397**	49,762
	132,859	82,856

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

At 31 December 2015, the Group has the following undrawn bank borrowing facilities:

	2015	2014
	HK$'000	*HK$'000*
Variable-rate		
– expiring beyond one year	**3,581**	11,784

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

None of the Group's property, plant and equipment (2014: carrying value of HK$746,000) were pledged to secure the respective bank borrowings as at 31 December 2015.

29. BANK BORROWINGS *(Continued)*

Notes:

(i) Bank borrowings of approximately RMB6,000,000 (equivalent to HK$7,162,000) (2014: RMB9,000,000 (equivalent to HK$11,346,000)) is secured by a contractual right to receive the revenue generated by Yichun Fangke, a non-wholly owned subsidiary of the Company, and carries variable interest rate ranging from 5.4% to 6.8% (2014: 6.8% to 7.2%) per annum.

(ii) Bank borrowings of approximately RMB15,300,000 (equivalent to HK$18,264,000) (2014: RMB22,200,000 (equivalent to HK$27,988,000)) is secured by a contractual right to receive the revenue generated by Gaoming Huaxin, a non-wholly owned subsidiary of the Company, and carries fixed interest rate of 5.94% (2014: 5.94%) per annum. As at 31 December 2015, approximately HK$3,939,000 (2014: HK$12,859,000) out of these borrowings has been past due.

(iii) Bank borrowings of approximately RMB50,000,000 (equivalent to HK$59,685,000) (2014: nil) is secured by a contractual right to receive the revenue generated by Yingtan Water Supply, a non-wholly owned subsidiary of the Company, and carries variable interest rate ranging from 4.9% to 5.9% per annum.

(iv) As at 31 December 2014, bank borrowings of approximately RMB1,872,000 (equivalent to HK$2,360,000) was secured by a contractual right to receive the revenue generated by Yingtan Water Supply, a non-wholly owned subsidiary of the Company, carried variable interest rate ranging from 6.6% to 7.0% per annum and was fully settled in 2015.

(v) As at 31 December 2014, bank borrowings of approximately RMB7,000,000 (equivalent to HK$8,825,000) was secured by the Group's property, plant and equipment, carried variable interest rate ranging from 6.8% to 7.2% per annum and was fully settled in 2015.

(vi) As at 31 December 2014, bank borrowings of approximately RMB4,050,000 (equivalent to HK$5,106,000) was secured by a corporate guarantee from New China Water (Nanjing), a wholly owned subsidiary of the Company, and carried fixed interest rate at 7.38% per annum. The amount was fully settled in 2015.

(vii) As at 31 December 2014, bank borrowings of approximately RMB9,600,000 (equivalent to HK$12,103,000) was secured by a joint guarantee from New China Water (Nanjing) and Mr. Li Jian Ping, a director of Nanjing Feng Shang, and carried variable interest rate ranging from 7.2% to 7.4% per annum. The amount was fully settled in 2015.

(viii) Bank borrowings of approximately RMB8,000,000 (equivalent to HK$9,550,000) (2014: RMB12,000,000 (equivalent to HK$15,128,000)) is secured by a corporate guarantee from the Company, and carries variable interest rate ranging around 6.5% (2014: 6.5% to 6.9%) per annum.

(ix) Bank borrowings of approximately RMB32,000,000 (equivalent to HK$38,198,000) (2014: nil) is secured by a corporate guarantee from the Company, secured by the Company's equity interests in Shenzhen Li Sai and Huiming Technology, and carries fixed interest rate of 6.3% per annum.

30. OTHER LOANS

	2015	2014
	HK$'000	*HK$'000*
Other loans comprise of:		
Government loans *(note i)*	**90,262**	71,579
Loans from employees *(note ii)*	**298**	1,310
Fixed coupon bonds *(note iii)*	**193,049**	–
	283,609	72,889
Analysed as:		
Unsecured	**283,609**	72,889

At 31 December 2015, the other loans were repayable as follows:

	2015	2014
	HK$'000	*HK$'000*
Overdue	**7,460**	8,875
On demand or within one year	**196,522**	4,744
More than one year but within two years	**1,194**	–
More than two years but within five years	**–**	1,260
More than five years	**78,433**	58,010
	283,609	72,889
Less: Amount due within one year shown under current liabilities	**(203,982)**	(13,619)
Amount due from one year shown under non-current liabilities	**79,627**	59,270

30. OTHER LOANS *(Continued)*

Notes:

(i) As at 31 December 2015, government loans of approximately HK$9,387,000 (2014: HK$10,086,000), HK$10,744,000 (2014: HK$12,252,000) and HK$70,131,000 (2014: HK$49,241,000) are fixed-rate borrowings, floating-rate borrowings and interest-free borrowings, respectively. The fixed-rate borrowings carry interest ranging from 5.0% to 5.2% (2014: 4.4% to 5.0%) per annum and the floating-rate borrowings carry interest at fixed deposit rate as stipulated by the People's Bank of China plus 0.3% per annum (2014: 0.3% to 5.0% per annum).

As at 31 December 2015, government loans of HK$7,162,000 was due for repayment on or before 31 December 2015 (2014: HK$7,564,000 which was due for repayment on or before 31 December 2014), HK$14,215,000 (2014: HK$16,090,000) are repayable on demand or within one year to ten years (2014: one year to eleven years), and the remaining balances are repayable within thirteen years (2014: thirteen years) after completion of the relevant assets.

(ii) At 31 December 2015, loans from employees of approximately RMB250,000 (equivalent to HK$298,000) (2014: 1,040,000 (equivalent to HK$1,310,000)) are fixed-rate borrowings carrying interest at 20% (2014: 20%) per annum and due for repayment on or before 31 December 2015 (2014: HK$1,310,000 which was due for repayment on or before 31 December 2014).

(iii) On 1 April 2015, the Company and Prosper Talent Limited (also see Note 33) entered into a Subscription Agreement in respect of the issuance of other loans with an aggregate principal amount of not more than HK$300 million at a fixed coupon interest of 10% per annum payable semi-annually in advance, comprising of the Series A Bond, Series B Bond and Series C Bond. Series A Bond and Series B Bond with an aggregate amount of HK$200 million, were issued on 9 April 2015 and 8 May 2015, respectively. These other loans will mature in one year from the date of issuance. The Company did not request for Series C Bond on or before 15 September 2015, Series C Bond automatically lapsed thereafter.

31. AMOUNTS DUE TO NON-CONTROLLING SHAREHOLDERS OF SUBSIDIARIES

The amounts were unsecured, interest-free and repayable on demand.

32. LOANS FROM ASSOCIATES

As at 31 December 2015, a loan of HK$3,130,000 (2014: HK$3,306,000) from an associate was unsecured, carried interest ranging from 4.35% to 5.6% (2014: 6.15%) per annum and was repayable within a year. The remaining balance at 31 December 2014 from another associate was unsecured, interest-free and repayable on demand.

33. CONVERTIBLE BONDS

On 16 October 2013, the Company and the Subscriber (Prosper Talent Limited) entered into the Subscription Agreement in respect of the issue of and subscription for the Convertible Bonds to be issued in two tranches in an aggregate principal amount of HK$200 million in cash, comprising of the Series A Bond and the Series B Bond.

The net proceeds from the Subscription (after deducting all related expenses) of approximately HK$200 million are intended to be used for investment in the establishment and operation of water supply companies, sewage treatment companies and solid waste treatment companies.

Series A Bond:

Subscription of the Series A Bond has been fulfilled and Series A Closing took place on 30 October 2013 with the issue of Series A Bond in the principal amount of HK$100 million convertible into ordinary shares of the Company at the initial conversion Price of HK$1.65 per share. The bond has a maturity date of one year (ie maturity date falling on 30 October 2014), bears interest at 7.5% per annum payable semi-annually coupon and, on maturity, the bond will be redeemed at an aggregate price of 100% of the outstanding principal amount plus an interest of 12% per annum, less the interest amount already paid on the bond. The conversion price of HK$1.65 is subject to certain anti-dilution adjustments and certain events such as changes in the share capital of the Company including consolidation and sub-division of shares, capitalisation of profits or reserves, capital distribution, rights issue, or subsequent issue of securities in the Company at substantial discount (ie less than 90%) to market value.

Following the completion of placing on 12 June 2014, the conversion price of the Series A Bond and Series B Bond was adjusted from the initial conversion price of HK$1.65 per share to HK$1.57 per share.

The Company fully redeemed the outstanding Series A Bond upon maturity on 30 October 2014 in accordance with the terms of the bond instrument.

33. CONVERTIBLE BONDS *(Continued)*

Series B Bond:

Subscription of the Series B Bond has been fulfilled and Series B Closing took place on 14 January 2014 with the issue of Series B Bond in the principal amount of HK$100 million convertible into ordinary shares of the Company at the initial conversion price of HK$1.65 per share. The terms of Series B Bond are identical to those of Series A Bond except that Series B Bond has a maturity date of one year (ie maturity date falling on 14 January 2015).

The Company fully redeemed the outstanding Series B Bond upon maturity on 14 January 2015 in accordance with the terms of the bond instrument.

Following the Series A Bond and Series B Bond being fully redeemed, the Company has no outstanding convertible bonds.

The Bonds contain liability component and conversion option

The fair value of the liability component on initial recognition was calculated based on the present value of the future interest and principal payments. The liability component of the convertible bonds is carried at amortised cost using the effective interest method. For the year ended 31 December 2014, the effective interest rates of the liability component of Series A Bond and Series B Bond were 24.67% and 30.21% per annum, respectively.

33. CONVERTIBLE BONDS *(Continued)*

The embedded conversion option represents the bondholders' option to convert the convertible bonds into ordinary shares of the Company. However, since the conversion will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments, the conversion option is treated as a derivative and is measured at fair value at the end of each reporting period with changes in fair value recognised in profit or loss.

The movement of the liability and derivatives component of the convertible bonds is set out below:

	Liability *HK$'000*	Derivatives component embedded in convertible bonds *HK$'000*	Total *HK$'000*
At 1 January 2014	89,646	17,706	107,352
Issuance of Series B Bond	86,178	13,822	100,000
Imputed interest recognised	43,399	–	43,399
Coupon interest paid in advance	(11,250)	–	(11,250)
Redemption of Series A Bond	(104,500)	–	(104,500)
Gain on change in fair value of derivatives embedded in convertible bonds	–	(31,482)	(31,482)
At 31 December 2014 and 1 January 2015	**103,473**	**46**	**103,519**
Imputed interest recognised	**1,027**	**–**	**1,027**
Redemption of Series B Bond	**(104,500)**	**–**	**(104,500)**
Gain on change in fair value of derivatives embedded in convertible bonds	**–**	**(46)**	**(46)**
At 31 December 2015	**–**	**–**	**–**

	2015 ***HK$'000***	2014 *HK$'000*
Total gains for the year included in profit or loss for liability held at the end of the reporting period	**–**	(13,776)

33. CONVERTIBLE BONDS *(Continued)*

The fair value of the conversion option is calculated using the Binomial Model. The inputs into the model were as follows:

	Series B Bond	
	At 12/31/2014	At date of issuance
Share price (HK$)	1.51	1.56
Conversion price (HK$)	1.57	1.65
Expected volatility *(note i)*	27.57%	41.48%
Expected life – year *(note ii)*	0.04	1.0
Risk free rate *(note iii)*	0.00%	0.20%
Expected dividend yield *(note iv)*	–	–

Notes:

(i) Expected volatility was determined by calculating the historical volatility of the Company's share price.

(ii) Expected life was the expected remaining life of the option.

(iii) The risk free rate is determined by reference to the yield of HK Exchange Fund Notes/Bills with a maturity life equal to the time to maturity of the convertible bond as of the valuation date.

(iv) The expected dividend yield was based on the historical dividend payment record of the Company.

34. CAPITAL AND RESERVES

(a) The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company	Share capital HK$'000	Share premium HK$'000	Investment revaluation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2014	555,166	484,002	9,147	(500,305)	548,010
Changes in equity for 2014:					
Profit for the year	–	–	–	74,871	74,871
Other comprehensive income for the year:					
Fair value gain recognised on available-for-sale investments	–	–	15,147	–	15,147
Reclassification on impairment of available-for-sale investments	–	–	16,353	–	16,353
Reclassification adjustments relating to available-for-sale investments disposed of during the year	–	–	(40,647)	–	(40,647)
Total comprehensive income for the year	–	–	(9,147)	74,871	65,724
Placing of new shares	111,000	111,000	–	–	222,000
Transaction costs attributable to issue of shares	–	(5,600)	–	–	(5,600)
At 31 December 2014 and 1 January 2015	**666,166**	**589,402**	**–**	**(425,434)**	**830,134**
Changes in equity for 2015:					
Loss for the year	**–**	**–**	**–**	**(156,262)**	**(156,262)**
Other comprehensive income for the year:					
Fair value loss on available-for-sale investments	**–**	**–**	**(22,777)**	**–**	**(22,777)**
Reclassification on impairment of available-for-sale investments	**–**	**–**	**58,537**	**–**	**58,537**
Reclassification adjustments relating to available-for-sale investments disposed of during the year	**–**	**–**	**(12,716)**	**–**	**(12,716)**
Total comprehensive income for the year	**–**	**–**	**23,044**	**(156,262)**	**(133,218)**
Placing of new shares	**133,000**	**367,080**	**–**	**–**	**500,080**
Transaction costs attributable to issue of shares	**–**	**(376)**	**–**	**–**	**(376)**
Repurchase of own shares	**(896)**	**(1,788)**	**–**	**–**	**(2,684)**
At 31 December 2015	**798,270**	**954,318**	**23,044**	**(581,696)**	**1,193,936**

34. CAPITAL AND RESERVES *(Continued)*

(b) Share capital

	2015		2014	
	No. of shares	**Amount**	No. of shares	Amount
	'000	***HK$'000***	*'000*	*HK$'000*
Authorised:				
Ordinary shares of HK$0.50 each				
At 1 January and 31 December *(note i)*	**4,000,000**	**2,000,000**	4,000,000	2,000,000
Convertible preference shares of HK$0.10 each				
At 1 January and 31 December *(note ii)*	**2,000,000**	**200,000**	2,000,000	200,000
Issued and fully paid:				
Ordinary shares of HK$0.50 each				
At 1 January	**1,332,332**	**666,166**	1,110,332	555,166
Placing of new shares *(note iii)*	**266,000**	**133,000**	222,000	111,000
Purchase of own shares for cancellation *(note iv)*	**(1,792)**	**(896)**	–	–
At 31 December	**1,596,540**	**798,270**	1,332,332	666,166

34. CAPITAL AND RESERVES *(Continued)*

(b) Share capital *(Continued)*

Notes:

(i) The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(ii) Convertible preference shares do not carry the right to vote and not be entitled to any dividend payment or any distribution of the Company. No right for return of capital in liquidation is available for distribution among the holders of Convertible Preference Shares.

(iii) On 30 May 2014, the Company entered into a placing agreement with the placing agent, pursuant to which the Company had through placing agent to place out 222,000,000 new ordinary shares at a placing price of HK$1 each to independent third parties. The transaction was completed on 12 June 2014. The net proceeds from the Placing was approximately HK$216.4 million which was intended to be used for (i) as to approximately 50% for repayment of convertible bonds; (ii) as to approximately 40% for future business development; and (iii) as to approximately 10% for general working capital of the Group.

On 26 May 2015, the Company entered into the placing agreement with independent subscribers, pursuant to which, the Company had placed out 266,000,000 new ordinary shares at placing price of HK$1.88 each to independent subscribers. The transaction was completed on 2 June 2015 and 5 June 2015. The net proceeds from the Placing was approximately HK$499.70 million which was intended to be used for (i) as to approximately 10% for general working capital purpose; and (ii) as to approximately 90% for future business development and investment of the Group.

(iv) Pursuant to an ordinary resolution passed at the Annual General Meeting of the Company held on 4 June 2015, a general mandate was granted to the directors of the Company to buy back shares not exceeding 10% of the issued share capital of the Company at the date of passing the resolution.

The Company acquired 1,792,000 of its own shares with a nominal value of HK$0.50 each through purchases on the Hong Kong Stock Exchange on 24 August 2015. The repurchased shares were cancelled and total amount paid to acquire the shares was approximately HK$2,684,000 and has been deducted from share capital and share premium within shareholders' equity (note 34(a)).

34. CAPITAL AND RESERVES *(Continued)*

(c) Nature and purpose of reserves

(i) Share premium

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

(ii) Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 3(cc).

(iii) Reserve fund

Reserve fund arises from (i) Pursuant to applicable PRC regulations, certain PRC subsidiaries in the Group are required to appropriate 10% of their profit after tax (after offsetting prior year losses) to the statutory reserve until such reserve reaches 50% of their registered capital. Transfers to this reserve must be made before distribution of dividends to shareholders. Upon approval by relevant authorities, the statutory reserve can be utilised to offset the accumulated losses or to increase the registered capital of the subsidiary, provided that the balance after such issue is not less than 25% of its registered capital; and (ii) premium paid for capital injection in relation to the additional of equity interest of a subsidiary.

(iv) Investment revaluation reserve

The investment revaluation reserve comprises the cumulative net change in the fair value of available-for-sale investments held at the end of the reporting period and is dealt with in accordance with the accounting policies in notes 3(o) and 3(p)(i).

35. GOVERNMENT GRANTS

	2015	2014
	HK$'000	*HK$'000*
At 1 January	**19,237**	95,980
Additions	**5,298**	214
Recognised as other income for the year	**(6,224)**	(214)
Carrying amount of government grants upon repayment *(note)*	**–**	(56,884)
Disposal of a subsidiary	**–**	(19,111)
Exchange realignment	**(1,055)**	(748)
At 31 December, classified as non-current liabilities	**17,256**	19,237

Note: As requested by the local government authority in Yichun, Jiangxi Province, the PRC, the Group repaid RMB49 million (HK$61.8 million) of government grants in cash to the local government authority in September 2014. The excess of the cash repayment over the carrying amount of the government grants of HK$56.9 million was charged as administrative expenses in 2014.

Certain subsidiaries of the Group received government grants subsidising construction of water supply facilities. There are no unfulfilled conditions and other contingencies attaching to the government grants. The government grants were accounted for as non-current liabilities and amortised over the useful lives of the relevant water pipeline network and water plant assets. During the year, certain projects related to the construction of water pipeline network has been completed and being used in the year. Deferred government grants of approximately HK$6,224,000 (2014: HK$214,000) was amortised and recognised in the consolidated statement of profit or loss.

36. DEFERRED TAX (ASSETS) LIABILITIES

The following are the major deferred tax (assets) liabilities recognised and movements thereon during the current and prior years:

	Withholding tax on undistributed profits HK$'000	Service concession arrangements HK$'000	Exclusive rights HK$'000	Revaluation on investment property/ resumption property HK$'000	Revaluation on investments HK$'000	Total HK$'000
At 1 January 2014	10,394	11,160	9,787	3,302	–	34,643
Charged (credited) to profit or loss for the year	1,146	2,890	(749)	151	11,509	14,947
Arising from acquisition of subsidiaries (*note 37*)	–	–	21,496	–	–	21,496
Disposal of subsidiaries	(3,487)	(3,072)	–	–	–	(6,559)
Exchange realignment	(59)	(67)	(42)	(29)	–	(197)
At 31 December 2014 and 1 January 2015	**7,994**	**10,911**	**30,492**	**3,424**	**11,509**	**64,330**
Charged (credited) to profit or loss for the year	**1,923**	**(2,933)**	**(1,786)**	**–**	**(11,509)**	**(14,305)**
Arising from acquisition of a subsidiary (*note 37*)	**–**	**–**	**382**	**–**	**–**	**382**
Exchange realignment	**(501)**	**(532)**	**(1,858)**	**(37)**	**–**	**(2,928)**
At 31 December 2015	**9,416**	**7,446**	**27,230**	**3,387**	**–**	**47,479**

Reconciliation to the consolidated statements of financial position

	2015 **HK$'000**	2014 HK$'000
Deferred tax assets	**(7,096)**	(1,327)
Deferred tax liabilities	**54,575**	65,657
	47,479	64,330

At 31 December 2015, the Group had unused tax losses of HK$40,307,000 (2014: HK$28,254,000) available for offset against future taxable profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. As at 31 December 2015, no tax losses can be carried forward indefinitely and tax losses of HK$40,307,000 (2014: HK$28,254,000) will expire in five years' time.

36. DEFERRED TAX (ASSETS) LIABILITIES *(Continued)*

At 31 December 2015, the Group also has other deductible temporary differences of approximately HK$116,793,000 (2014: HK$111,322,000). No deferred tax asset has been recognised in relation to such deductible temporary differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be recognised.

Under the EIT law of PRC, withholding tax is imposed on dividend declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. For investors incorporated in Hong Kong which hold at least 25% of equity interest of those PRC companies, a preferential rate of 5% will be applied. Deferred tax has been provided for in respect of the temporary difference attributable to such profits amounting to approximately HK$188,320,000 (2014: HK$159,880,000). The Group has applied the preferential rate of 5% as all the Group's subsidiaries and an associate in the PRC are directly held by an investment holding company incorporated in Hong Kong.

37. ACQUISITION OF SUBSIDIARIES

(a) Shenzhen Li Sai

On 23 January 2014, New China Water (Nanjing), an indirect wholly-owned subsidiary of the Company, entered into the sale and purchase agreement with two independent parties for the purpose of acquiring approximately 88% of the issued share capital of Shenzhen Li Sai at a cash consideration of RMB59,840,000 (HK$75,017,000). The acquisition has been accounted for using the acquisition method. The amount of goodwill arising as a result of the acquisition was HK$12,998,000.

Shenzhen Li Sai obtained the exclusive operation rights for the project of conversion of the Shenzhen City Xiaping Solid Waste Landfill Site* 深圳市下坪固體廢棄物填埋場 (the "Shenzhen Xiaping Landfill Site") into compressed natural gas in the Shenzhen Xiaping Landfill Site for a term of seventeen years until 1 April 2030. It is expected that the project will be commenced in April 2015.

In addition, Shenzhen Li Sai has also entered into a purchase and sale agreement of gas in relation to the conversion of the landfill gas into compressed natural gas with Shenzhen Gas Corporation Ltd.

The management believes that the acquisition will provide a good business opportunity to the Company in the compressed natural gas generation industry in Shenzhen, the PRC.

Up to 31 December 2014, the Group has fully settled the consideration. The acquisition is considered to be completed on 28 August 2014.

37. ACQUISITION OF SUBSIDIARIES *(Continued)*

(a) Shenzhen Li Sai *(Continued)*

The net assets acquired in the transaction and the goodwill arising are as follows:

	Fair value
	HK$'000
Other intangible assets *(note 20)*	**71,505**
Property, plant and equipment	**11,645**
Inventories	**101**
Trade and other receivables	**17,436**
Bank balances and cash	**2,353**
Trade and other payables	**(13,258)**
Deferred tax liabilities	**(19,306)**
Total identified net assets	**70,476**
Non-controlling interest	**(8,457)**
Goodwill arising on acquisition of a subsidiary	**12,998**
Consideration, satisfied in cash	**75,017**
Cash and cash equivalent balances acquired	**(2,353)**
Net cash outflow in the year ended 31 December 2014	**72,664**

The fair value of trade and other receivables at the date of acquisition of HK$17,436,000 which were the same as the gross contractual amounts. None of the receivables have been impaired and it is expected the full contractual amounts can be collected.

The non-controlling interests (12%) in Shenzhen Li Sai recognised at acquisition date were measured by reference to the proportionate share of recognised amounts of net assets of Shenzhen Li Sai.

The above goodwill is attributable to Shenzhen Li Sai's strong position in the biogas power generation business in Shenzhen, the PRC. These benefits were not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on the acquisition is expected to be deductible for the tax purpose.

37. ACQUISITION OF SUBSIDIARIES *(Continued)*

(a) Shenzhen Li Sai *(Continued)*

From the date of acquisition to 31 December 2014, Shenzhen Li Sai contributed revenue and loss of HK$nil and HK$1,019,000, respectively, to the revenue and profit of the Group for the year ended 31 December 2014. During this period, Shenzhen Li Sai recorded revenues of HK$5,486,000 from extraction and sale of raw materials (biogas), which was classified as other operating income on these consolidated financial statements.

Had the business combination been effected on 1 January 2014, the revenue and profit of the Group for the year ended 31 December 2014 would have been HK$507,963,000 and HK$205,166,000, respectively. The directors consider these "pro-forma" numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

(b) Huiming Technology

On 21 March 2014, New China Water (Nanjing), an indirect wholly-owned subsidiary of the Company, entered into the sale and purchase agreement with two independent third parties to acquire the entire issued share capital of Huiming Technology for a consideration of RMB15,000,000 (HK$18,840,000). The acquisition has been accounted for using the acquisition method. The amount of goodwill arising as a result of the acquisition was HK$735,000.

Huiming Technology currently possesses of a waste landfill biogas resource utilization project in Zhuzhou (the "Zhuzhou Biogas Project") and has the right for the exclusive use of all the biogas resources from the waste landfill sites in the city of Zhuzhou for a period until 1 October 2023. The estimated annual production output of the landfill biogas for the Zhuzhou Biogas Project is approximately 12 million m^3.

The management believes that the acquisition will provide a good business opportunity to the Company in the biogas power generation industry in Hunan, the PRC.

The acquisition is considered to be completed on 18 November 2014.

37. ACQUISITION OF SUBSIDIARIES *(Continued)*

(b) Huiming Technology *(Continued)*

	HK$'000
Total consideration	18,846
Consideration paid in the year ended 31 December 2014	(5,609)
Consideration payable at 31 December 2014 *(note 27)*	13,237
Consideration paid in the year ended 31 December 2015	(13,237)
Consideration payable at 31 December 2015	–

The net assets acquired in the transaction and the goodwill arising are as follows:

	Fair value *HK$'000*
Other intangible assets *(note 20)*	12,452
Property, plant and equipment	22,383
Inventories	112
Trade and other receivables	4,705
Bank balances and cash	406
Trade and other payables	(2,167)
Bank loans	(17,590)
Deferred tax liabilities	(2,190)
Total identified net assets	18,111
Goodwill arising on acquisition of a subsidiary	735
Consideration, satisfied in cash	18,846
Consideration payable	(13,237)
Cash and cash equivalent balances acquired	(406)
Net cash outflow in the year ended 31 December 2014	5,203

The fair value of trade and other receivables at the date of acquisition of HK$4,705,000 which were the same as the gross contractual amounts. None of the receivables have been impaired and it is expected the full contractual amounts can be collected.

37. ACQUISITION OF SUBSIDIARIES *(Continued)*

(b) Huiming Technology *(Continued)*

The above goodwill is attributable to Huiming Technology's strong position in the biogas power generation business in Hunan, the PRC. These benefits were not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on the acquisition is expected to be deductible for the tax purpose.

From the date of acquisition to 31 December 2014, Huiming Technology contributed revenue and profit of HK$1,019,000 and HK$346,000, respectively, to the revenue and profit of the Group for the year ended 31 December 2014.

Had the business combination been effected on 1 January 2014, the revenue and profit of the Group for the year ended 31 December 2014 would have been HK$518,104,000 and HK$219,942,000, respectively. The directors consider these "pro-forma" numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

(c) Hunan Feng Ming

On 21 March 2014, New China Water (Nanjing) entered into the sale and purchase agreement with two independent third parties to acquire the entire issued share capital of Hunan Feng Ming for a consideration of RMB3,000,000 (HK$3,657,000). The acquisition has been accounted for using the acquisition method.

Hunan Feng Ming currently possesses a solid waste disposal site and a biogas resource utilization project in Liuyang (the "Liuyang Biogas Project") and has the right for the exclusive use of all the landfill gas collected from the disposal sites in the city of Liuyang. The estimated annual production output of landfill biogas for Liuyang Biogas Project is approximately 4 million m^3.

The management believes that the acquisition will provide a good business opportunity to the Company in the biogas power generation industry in Hunan, the PRC.

Up to 31 December 2015, the Group has paid HK$624,000 as partial settlement of the consideration. The acquisition is considered to be completed on 14 October 2015.

37. ACQUISITION OF SUBSIDIARIES *(Continued)*

(c) Hunan Feng Ming *(Continued)*

	2015 *HK$'000*
Total consideration paid	624
Consideration payable *(note 27)*	3,033
Total consideration paid and payable	3,657

The net assets acquired in the transaction and the goodwill arising are as follows:

	Fair value *HK$'000*
Other intangible assets *(note 20)*	1,768
Property, plant and equipment	7,058
Inventories	251
Trade and other receivables	784
Bank balances and cash	17
Trade and other payables	(5,839)
Deferred tax liabilities *(note 36)*	(382)
Total identified net assets, consideration, satisfied in cash	3,657
Consideration payable *(note 27)*	(3,033)
Cash and cash equivalent balances acquired	(17)
Net cash outflow in the year ended 31 December 2015	607

37. ACQUISITION OF SUBSIDIARIES *(Continued)*

(c) Hunan Feng Ming *(Continued)*

The fair value of trade and other receivables at the date of acquisition of HK$784,000 which were the same as the gross contractual amounts. None of the receivables have been impaired and it is expected the full contractual amounts can be collected.

From the date of acquisition to 31 December 2015, Hunan Feng Ming contributed revenue and loss of HK$nil and HK$176,000, respectively, to the revenue and loss of the Group for the year ended 31 December 2015.

Had the business combination been effected on 1 January 2015, the revenue and loss of the Group for the year ended 31 December 2015 would have been HK$528,586,000 and HK$71,466,000, respectively. The directors consider these "pro-forma" numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

38. DISPOSAL OF SUBSIDIARIES

(a) On 16 December 2014, the Group disposed of 70% equity interest of Super Sino Investment Limited ("Super Sino"), together with 70% of the entire loan due and payable by the Disposal Group, to Guangdong Water Group (H.K.) Limited. Super Sino, together with its various wholly-owned subsidiaries (excluding Anhui Dang Shan Water Industry Company Ltd. (note 38(b)) (collectively the "Disposal Group"), carried out water supply, water testing and installation of water supply facilities in Danzhou, Hainan Province, the PRC. Thereafter, the Group retains a 30% equity interest in these entities which are accounted for as associates (note 23).

On 23 July 2015, the final consideration for the disposal was adjusted downward by RMB4,650,000 from RMB175,000,000 to RMB170,350,000 (approximately HK$213,620,000) (the "Final Consideration"). The Final Consideration was determined primarily after deduction of the outstanding amounts owed by a 70% indirectly owned subsidiary of the Company to Guangdong Water Group (H.K.) Limited of RMB4,230,000 (approximately HK$5,300,000).

	2014 *HK$'000*
Cash consideration (RMB175 million)	221,022
Fair value of interest retained by the Group as associates *(note 23)*	2,072
Total consideration received and receivable	223,094
Analysis of assets and liabilities over which control was lost	
Current assets	
Cash and cash equivalents	680
Trade and other receivables	8,097
Inventories	7,124
Prepaid lease payments	236
Non-current assets	
Property, plant and equipment	95,935
Prepaid lease payments	14,738
Concession intangible assets	105,969
Current liabilities	
Trade and other payables	(1,159)
Payables to the Group	(108,320)
Amounts due to non-controlling shareholders	(32,496)
Other loans	(52,352)
Income tax payables	(5,874)
Non-current liabilities	
Government grants	(19,111)
Deferred tax liabilities	(6,559)
Net assets disposed of	6,908

38. DISPOSAL OF SUBSIDIARIES *(Continued)*

(a) *(Continued)*

	2014 *HK$'000*
Gain on disposal of subsidiaries	
Total consideration received	132,718
Consideration receivables *(note 25)*	88,304
Fair value of interest retained by the Group as associates *(note 23)*	2,072
Cost directly attributable to the disposal	(7,253)
	215,841
Carrying value of former subsidiary's net assets disposed of	(6,908)
Release of reserve upon disposal of subsidiaries	6,295
70% of amounts due from the Disposal Group	(75,824)
Impairment on the remaining 30% of amounts due from the Disposal Group	(32,496)
Gain on disposal of subsidiaries	106,908
Net cash inflow on disposal of subsidiaries	
Consideration received in cash and cash equivalents	132,718
Cost directly attributable to the disposal	(5,089)
Cash and cash equivalent balances disposed of	(680)
Net cash inflow in the year ended 31 December 2014	126,949

In January 2015, the third instalment of the consideration of RMB52,500,000 (approximately HK$66,228,000) was settled. The remaining amount of RMB17,500,000 (approximately HK$22,076,000) was settled in the year ended 31 December 2015.

Included in the impairment loss is the amount due from the Disposal Group of HK$32,496,000 which is long outstanding. In the opinion of the directors of the Company, the possibility of the recovery of this balance was remote, therefore an impairment of approximately HK$32,496,000 was made.

According to the sale and purchase agreement, the Company pledged 3 ordinary shares in the issued share capital of Super Sino, representing 30% of the entire issued share capital of Super Sino to and in favour of the purchaser. Upon the fulfilment of certain undertakings mentioned in the sale and purchase agreement, the purchaser has irrevocably undertaken to the Company to release the share pledge, details of which are set out in the announcement of the Company on 15 September 2014. The directors consider the performance risk of these undertakings and are of the opinion that these undertakings should have no material impact on the results and financial position of the Group.

38. DISPOSAL OF SUBSIDIARIES *(Continued)*

(b) As a condition precedent to the completion of disposal of 70% equity interest of Super Sino (note 38(a)), on 6 November 2014, the Group disposed of its entire interest of Anhui Dang Shan Water Industry Company Limited which carried out water supply in the Anhui Province, the PRC.

	2014 *HK$'000*
Total consideration received and receivable	–
Analysis of assets and liabilities over which control was lost	
Current assets	
Cash and cash equivalents	176
Trade and other receivables	1,971
Inventories	738
Non-current assets	
Property, plant and equipment	15,963
Current liabilities	
Trade and other payables	(22,033)
Payables to the Group	(7,044)
Other loans	(1,514)
Net liabilities disposed of	(11,743)
Gain on disposal of a subsidiary	
Net liabilities disposed of	11,743
Release of reserve upon disposal of subsidiaries	5,176
Impairment of amount due from Anhui Dang Shan Water Industry Company Limited	(7,044)
Gain on disposal of a subsidiary	9,875
Net cash outflow on disposal of a subsidiary in the year ended 31 December 2014	
Cash and cash equivalent balances disposed of	(176)

Included in the impairment loss is the amount due from Anhui Dang Shan Water Industry Company Limited of HK$7,044,000 which is long outstanding. In the opinion of the directors of the Company, the possibility of the recovery of this balance was remote, therefore an impairment of approximately HK$7,044,000 was made.

39. CAPITAL COMMITMENTS

Capital commitments outstanding at 31 December 2015 not provided for in the financial statements were as follows:

	2015	2014
	HK$'000	*HK$'000*
Contracted but not provided for:		
– Acquisition of concession intangible assets, plant and equipment *(note)*	**110,548**	92,393
– Properties under development in relation to development cost of existing projects	**9,274**	26,646
	119,822	119,039

Note: At 31 December 2015, the amount represented capital commitment contracted but not provided for acquisition of plant and equipment and concession intangible assets of HK$105,966,000 (2014: HK$78,448,000) and HK$4,582,000 (2014: HK$13,945,000), respectively.

40. OPERATING LEASES

The Group as lessee

The Group leases certain of its factory premises, plant and staff quarters under operating lease arrangements. Leases for properties are typically run for an initial period of one to ten years. Rental was fixed at the inception of the lease. No provision for contingent rent and terms of renewal were established in the leases.

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2015	2014
	HK$'000	*HK$'000*
Within one year	**1,966**	3,501
After one year but within five years	**5,044**	3,672
After five years	**–**	745
	7,010	7,918

40. OPERATING LEASES *(Continued)*

The Group as lessor

Property rental income earned during the year was approximately HK$1,370,000 (2014: HK$1,417,000) (note 9).

The properties were transferred to the local government of Yingtan for the development of a composite project, details are set out in note 19 of the financial statements.

As at 31 December 2014, the properties were expected to generate rental yields of 7% per annum on an ongoing basis. The properties had committed tenants for twenty years and none of the leases includes contingent rentals.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2015	2014
	HK$'000	*HK$'000*
Within one year	–	1,517
After one year but within five years	–	5,486
After five years	–	22,402
	–	29,405

41. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option scheme

The 2011 Scheme

On 3 June 2011, the Company has adopted new share option scheme (the "2011 Scheme") to replace the 2002 Scheme.

Further details are set out in the announcement of the Company dated 29 April 2011. The 2011 Scheme is valid and effective for a period of 10 years after the date of adoption.

Under the terms of the 2011 Scheme, the Directors of the Company may, at their discretion, grant options to the employees, executive or non-executive Directors, business associate, person or entity that provides research, development or other technological support to any shareholder of any member of the Group or any invested entity, any adviser or consultant to any owner of business or business development of any member of the Group or any invested entity (the "Eligible Participants").

A nominal consideration of HK$1 is payable on acceptance of the grant of an option which will entitle the holders to subscribe for shares of the Company during a period of 10 years commencing on the date of acceptance of the option at a price at least the highest of (i) the nominal value of the shares of the Company; (ii) the closing price of the shares of the Company on the Stock Exchange on the date of grant; and (iii) the average of the closing prices of the shares of the Company on the Stock Exchange for the five trading days immediately preceding the date of the grant of the option.

41. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

Equity-settled share option scheme *(Continued)*

The 2011 Scheme (Continued)

Share options granted to connected person and its associates is subject to the approval of the Independent Non-Executive Directors ("INEDs"). In addition, any grant of share options to a substantial shareholder or an INED or any of their respective associates, in excess of 0.1% of the shares of the Company in issue and with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, is subject to the approval of the shareholders of the Company in a general meeting.

The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the 2011 Scheme and any other schemes of the Company must not exceed 30% of the shares of the Company in issue from time to time. Subject to the shareholders' approval, the maximum number of shares in respect of which options may be granted under the 2011 Scheme shall not exceed 10% of the shares in issue as at the date of the approval, or the maximum number of shares in respect of which options may be granted to any Eligible Participants may not exceed 1% of the shares in issue from time to time in a 12-month period. Except for the entitlements of dividends, bonus, rights declared before the exercise of options, any shares allotted and issued on the exercise of an option will rank pari passu with the other shares in issue at the date of exercise of the relevant option.

As at 31 December 2015 and 2014, no options had been granted and remained outstanding under the 2011 Scheme of the Company.

42. RETIREMENT BENEFIT SCHEMES

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group and its employees each contribute 5% of relevant payroll costs to the scheme. Effective from 1 June 2014, the cap of monthly relevant income has increased from $25,000 to $30,000.

The employees of the Group's subsidiaries in the PRC are required to participate in the Central Pension Scheme ("CPS") CPS operated by the local municipal governments. These PRC subsidiaries are required to contribute a certain percentage of their payroll costs to the CPS. The contributions are charged to the consolidated statement of profit or loss as they become payable in accordance with the rules of the CPS.

The total cost charged to the consolidated statement of profit or loss of approximately HK$13,725,000 (2014: HK$14,088,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

43. STATEMENT OF FINANCIAL POSITION OF THE COMPANY AS AT 31 DECEMBER 2015

	Note	2015 HK$'000	2014 HK$'000
Non-current assets			
Investments in subsidiaries		**2**	2
Available-for-sale investments		**181,424**	26,016
		181,426	26,018
Current assets			
Financial assets at fair value through profit or loss		**220,061**	238,527
Other receivables		**36,004**	4
Amounts due from subsidiaries		**931,363**	665,315
Tax recoverables		**3,404**	–
Cash held by financial institutions		**892**	1,389
Bank balances and cash		**17,371**	23,593
		1,209,095	928,828
Current liabilities			
Other payables		**3,536**	5,891
Other loans		**193,049**	–
Convertible bonds		**–**	103,519
Tax payables		**–**	3,793
		196,585	113,203
Net current assets		**1,012,510**	815,625
Total assets less current liabilities		**1,193,936**	841,643
Capital and reserves			
Share capital	*34*	**798,270**	666,166
Reserves	*34*	**395,666**	163,968
Total equity		**1,193,936**	830,134
Non-current liabilities			
Deferred tax liabilities		**–**	11,509
		1,193,936	841,643

Approved and authorised for issue by the board of directors on 29 March 2016:

Wang De Yin
Chairman and Chief Executive Officer

Liu Feng
Director

44. EMOLUMENTS OF DIRECTORS AND CHIEF EXECUTIVE

The emoluments paid or payable to each of the 8 (2014: 8) directors and chief executive were as follows:

Name	Fees	Salaries, allowance and benefits in kind	Discretionary bonuses	Employer's contribution to a retirement benefit scheme	2015 Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive Directors					
Wang De Yin	–	2,069	710	18	2,797
Liu Feng	–	859	414	18	1,291
Lin Yue Hui	–	806	414	18	1,238
Chu Yin Yin, Georgiana	–	840	414	18	1,272
Deng Xiao Ting	–	1,190	414	25	1,629
	–	5,764	2,366	97	8,227
Independent Non-Executive Directors					
Guo Chao Tian	145	–	–	–	145
Li Jian Jun	145	–	–	–	145
Wong Siu Keung, Joe	145	–	–	–	145
	435	–	–	–	435
	435	5,764	2,366	97	8,662

44. EMOLUMENTS OF DIRECTORS AND CHIEF EXECUTIVE *(Continued)*

Name	Fees	Salaries, allowance and benefits in kind	Discretionary bonuses	Employer's contribution to a retirement benefit scheme	2014 Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive Directors					
Wang De Yin	–	1,961	1,475	17	3,453
Liu Feng	–	583	860	17	1,460
Lin Yue Hui	–	732	860	17	1,609
Chu Yin Yin, Georgiana	–	765	860	17	1,642
Deng Xiao Ting	–	849	860	6	1,715
	–	4,890	4,915	74	9,879
Independent Non-Executive Directors					
Guo Chao Tian	142	–	–	–	142
Li Jian Jun	142	–	–	–	142
Wong Siu Keung, Joe	142	–	–	–	142
	426	–	–	–	426
	426	4,890	4,915	74	10,305

There was no arrangement under which directors and chief executive have waived or agreed to waive any emoluments during the two years ended 31 December 2015 and 2014.

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

45. LITIGATIONS AND ARBITRATION

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

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

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

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

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

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

On 13 May 2013, Yunnan Chaoyue Gas provided loan repayment plan (the "Repayment Plan") to Guangzhou Hyde. On 1 September 2014, Kunming Court has approved the civil enforcement against Yunnan Chaoyue Gas. Up to the date of approval of these financial statements, Yunnan Chaoyue Gas has not performed the repayment obligation according to the Repayment Plan.

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

* The English names are for identification purpose only.

45. LITIGATIONS AND ARBITRATION *(Continued)*

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

On 21 August 2012, the Company and its subsidiary of Swift Surplus Holdings Limited ("Swift Surplus") (collectively as the "Lenders") entered into repayment agreements (the "Repayment Agreements") with the Sihui Sewage Treatment Co. Ltd.* (四會市城市污水處理有限公司) and Top Vision Management Limited ("Top Vision") (collectively as the "Borrowers") together with their respective guarantors, pursuant to which, the Borrowers shall repay to the Lenders the loan receivables of approximately HK$58.43 million together with interest accrued thereon (the "Loan Receivables"). HK$5 million of the Loan Receivables will be repaid on or before 30 September 2012 and the remaining Loan Receivables shall be repaid on or before 31 December 2012. On 29 August 2012, the Company only received HK$5 million of the Loan Receivables. However, the remaining Loan Receivables of HK$53.43 million (the "Remaining Loan Receivables") plus underlying interests were not yet received on 31 December 2012. On 22 March 2013, the Lenders have entered into supplemental deeds with the Borrowers together with their respective guarantors, pursuant to which, approximately HK$18.03 million of the Remaining Loan Receivables and underlying interests shall be repaid to the Lenders on or before 21 March 2014 (the "Partial Payment of the Remaining Loan Receivables"). Nevertheless, Swift Surplus and Top Vision and its guarantors could not reach an agreement in respect of the terms and date of the repayment of the outstanding balance of HK$35.40 million of the Remaining Loan Receivables and underlying interests (the "Outstanding Balance"). Despite the Company several requests and demands, Top Vision failed to effect payment of the Outstanding Balance. On 14 May 2013, the Company instructed its legal counsel to file the writ of summons (the "Writ") to the High Court of Hong Kong Special Administrative Region (the "High Court") to recover the Outstanding Balance from Top Vision. On 25 June 2013, the High Court adjudged a final judgment that Top Vision shall pay the Outstanding Balance to Swift Surplus (the "Final Judgement"). Top Vision has not performed the repayment obligation under the judgment issued by the High Court. The Company cannot locate any asset of Top Vision in Hong Kong. As advised by the legal counsel, without information on the assets of Top Vision in Hong Kong, the Company cannot enforce the Final Judgment against Top Vision. As the major assets owned by the subsidiaries of Top Vision are located in Guangdong Province, the PRC, the Company had undertaken recovery actions including but not limited to legal actions taken in PRC to collect the Remaining Loan Receivables.

45. LITIGATIONS AND ARBITRATION *(Continued)*

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

On 20 August 2014, a petition was filed by Galaxaco Reservoir Holdings Limited ("Galaxaco") to wind up Top Vision, one of the creditors of Top Vision. Top Vision has now been wound up by the High Court by a Winding-up Order under Companies Winding-up Proceedings No.157/2014 and the first meeting of creditors of Top Vision was held on 30 October 2014 for the appointment of provisional of liquidator. On 14 January 2015, the solicitors act for Galaxaco requested the High Court to have the hearing adjourned for the appointment of liquidators (the "Appointment") pending the alleged negotiation settlement between Top Vision and all creditors including the Company and its subsidiary of Swift Surplus and Galaxaco. On 4 May 2015, The High Court appointed SHINEWING Specialist Advisory Services Limited as liquidators ("Liquidators"). The Liquidators have carried out the site visits and performed the investigation on PRC subsidiary of Top Vision. On 16 July 2015, the Zhaoqing Intermediate People's Court adjudged that the Final Judgement recognised and accepted to execute in Mainland China for the recovering the Outstanding Balance and the underlying interest from Top Vision ("PRC Judgement"). During the year, the Company has instructed its legal counsel to issue demand letters to respective guarantors, if guarantors fail to settle the Remaining Loan Receivables and the underlying interests within stipulated time, the Company will undertake the arbitration and civil action in Hong Kong against the respective guarantors. On 27 January 2016, the PRC Judgement was announced on the website of The People's Court Announcement for 60 days ("Announcement Period"). If Top Vision has not appealed for the PRC Judgement within 30 days after the Announcement Period, the PRC Judgement will be automatically effective thereafter, the Company can enforce the PRC Judgement. As at 31 December 2015 and 2014, the loan receivables from Top Vision of HK$43.60 million were fully impaired.

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

* The English names are for identification purpose only.

46. MATERIAL RELATED PARTY TRANSACTIONS

(a) The balances with related parties at the end of the reporting period are disclosed elsewhere in the consolidated financial statements.

(b) Compensation of key management personnel

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 44, is as follows:

	2015	2014
	HK$'000	*HK$'000*
Short-term employee benefits	**11,109**	12,942
Post-employment benefits	**105**	91
	11,214	13,033

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

47. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2015

Up to the date of issue of these financial statements, the HKICPA has issued a few amendments and new standards which are not yet effective for the year ended 31 December 2015 and which have not been adopted in these financial statements. These include the following which may be relevant to the group.

	Effective for accounting periods beginning on or after
Annual Improvements to HKFRSs 2012-2014 Cycle	1 January 2016
Amendments to HKFRS 10 and HKAS 28, Sale or contribution of assets between an investor and its associate or joint venture	date to be determined
Amendments to HKFRS 10, HKFRS 12 and HKAS 28, Investment entities: Applying the Consolidation Exception	1 January 2016
Amendments to HKFRS 11, Accounting for acquisitions of interests in joint operations	1 January 2016
Amendments to HKAS 1, Disclosure initiative	1 January 2016
Amendments to HKAS 16 and HKAS 38, Clarification of acceptable methods of depreciation and amortisation	1 January 2016
HKFRS 15, Revenue from contracts with customers	1 January 2018
HKFRS 9, Financial instruments	1 January 2018

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

48. EVENTS AFTER THE REPORTING PERIOD

On 21 September 2015, New China Water (Nanjing) and Datang Huayin Electric Power Co., Ltd* entered into the acquisition agreements to acquire entire equity interests of Datang Huayin Chenzhou Environmental Power Company Limited* (which principally engages in solid waste detox treatment and landfill gas power generation in Xiangshan Ping, Suxian District, Chenzhou City, Hunan Province) and Datang Huayin Heng Yang Environmental Power Company Limited* (which principally engages in solid waste detox treatment and landfill gas power generation in Zhang Mu Town, Hengyang County, Hunan Province) (collectively "the acquirees") for a consideration of RMB14.0 million and RMB11.0 million, respectively.

As at 31 December 2015, the Company had paid the entire consideration of HK$29.84 million as deposits. The acquisitions of the acquirees were subsequently completed on 3 March 2016. Details of the acquisition have been set out in the Company's announcement dated 21 September 2015.

The directors of the Company strongly believe that the acquisitions, which allow the Group to expand into waste treatment and environment protection industry in Hunan Province, is an investment opportunity which is consistent with the long-term business strategy of the Group.

Due to the timing of the transaction, the Group is still assessing the allocation of fair values of the assets acquired and liabilities assumed. The Group has not yet been able to analyse all books and records of the acquirees and therefore the initial accounting for the business combination is still incomplete. Accordingly, certain disclosures in relation to the business combination as at the date of the acquisition, such as fair values of assets acquired and liabilities assumed, goodwill recognised (if any) and acquisition-related costs, have not been presented.

* The English names are for identification purpose only.